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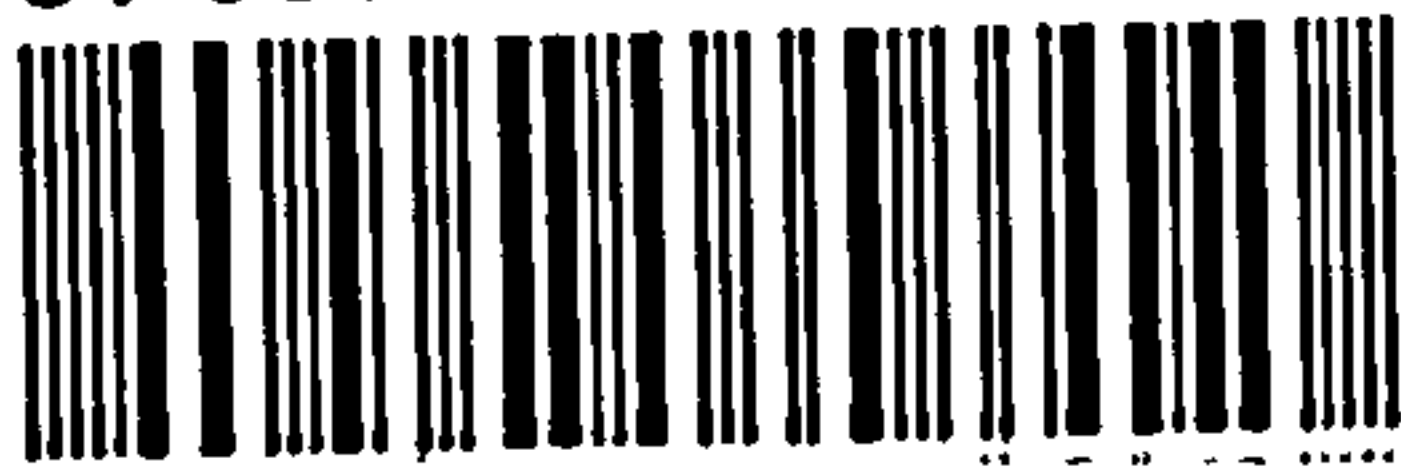
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***THE IMPACT OF
MARKETING COMMUNICATIONS
ON CUSTOMER RELATIONSHIPS:***

An Investigation into the UK Banking Sector

Nurdilek Dalziel *MPhil, MSc(MBRM)*

A thesis submitted for the degree of
Doctor of Philosophy (PhD) in Marketing

Based upon research conducted at the Open University
Business School within the disciplines of Strategy and Marketing

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ABSTRACT

This exploratory research provides a valuable insight into the communication aspect of relationships. In particular, this research investigates the impact of marketing communications on customer relationships from customers' view. Two main types of communication settings are focused on: service encounters and planned marketing communications. Taking a broader approach, service encounters are examined from the perspective of: (1) interactions with service providers (as human and remote interactions), (2) service environment, and (3) interactions with other customers (i.e. word-of-mouth communication). In terms of planned marketing communications, three key communication channels are focused on: advertising, corporate sponsorship and direct marketing.

The context of the research is the UK banking sector. Adopting a primarily qualitative approach, data were collected through semi-structured in-depth interviews with bank customers. Research participants were recruited through advertising and snowballing methods. The analysis was guided by the principles of content analysis.

This research offers three main contributions. Firstly, the current research has extended the work on service provider and customer relationships by presenting an insight into the nature of customer relationships and their underlying dimensions. In particular, four relationship types were identified which can represent various types of relationships customers may establish with financial institutions: (1) faltering, (2) functional, (3) interactive and (4) affective. Secondly, the research presented empirical evidence on the potential of advertising, corporate sponsorship and direct marketing to promote various types of relationships. Thirdly, this research provides an enhanced understanding about the aspects of service encounters, that are likely to promote (or threaten) the development of certain relationship types.

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CHAPTER 1

OVERVIEW OF THE RESEARCH

1.1 INTRODUCTION

The current research is concerned with investigating the communication aspect of relationships. In particular, the research focuses on the impact of marketing communications on customer relationships. The communication aspect of customer relationships is an empirically under-researched area. Two disciplines which are relationship marketing research and marketing communications research were drawn together in order to present insight into the investigation, and hence to build on the limited existing knowledge. The banking sector was used as the context of the investigation.

To set the scene for the rest of the thesis, this chapter begins with the rationale for and scope of the research (Section 1.2). After presenting the research questions (Section 1.3), an overview of the methodology (Section 1.4) and research findings (Section 1.5) are summarised. In the final section (Section 1.6) the organisation of the thesis is outlined. It should be noted that these topics are covered only in general terms since the purpose of this chapter is to set the scene and guide the reader through the thesis.

1.2 RATIONALE FOR AND SCOPE OF THE RESEARCH

Developing a relationship with individual customers has been the focus of relationship marketing due to an understanding that customer retention is economically more advantageous than mere customer recruitment (Sheth and Parvatiyar 1995b). When banks are operating in a stable and deregulated environment, and are under competitive pressures, customer relationship management becomes a key strategy for bank positioning (Levesque and McDougall 1996). The banking sector is one of the most deregulated sectors of the UK economy (Jayawardhena and Foley 2000), and consequently the global competition has been increasing in the banking market since the 1980s (Egan and

Shiple 1995; Durkin and Howcroft 2003; Hughes 2006). It is noted that consumer behaviour in the retailing of financial services has often been characterised by inertia owing to the perceived little differences between service providers (Jones and Farquhar 2003; O'Loughlin *et al.* 2004) or difficulties in switching providers (Panther and Farquhar 2004). In order to keep customers, it becomes increasingly more important to adopt a customer-oriented approach, which can be supported by relationship marketing (Adamson *et al.* 2003).

Communication is believed to be one of the core elements in enhancing the relationship process between organizations and their customers (Mohr and Nevin 1990; Barnes and Howlett 1998; Sharma and Patterson 1999; Alexander and Colgate 2000). Communication is viewed as “the glue that holds together a channel of distribution” (Mohr and Nevin 1990:36). There are indications that communication has a potential to influence the development of relationships through their direct impact on the fundamental relationship components, such as trust and commitment (e.g., Anderson and Narus 1990; Mohr and Nevin 1990). However, this area has attracted limited academic research (Andersen 2001; Tapp 2001; Odekerken-Schröder *et al.* 2003); most of which is in a descriptive or proposition-testing in nature (Andersen 2001). There is, as a result, a lack of depth into the nature of communication and the role it plays in the development of customer relationships. This research addresses the gap in the literature by contributing to this limited knowledge.

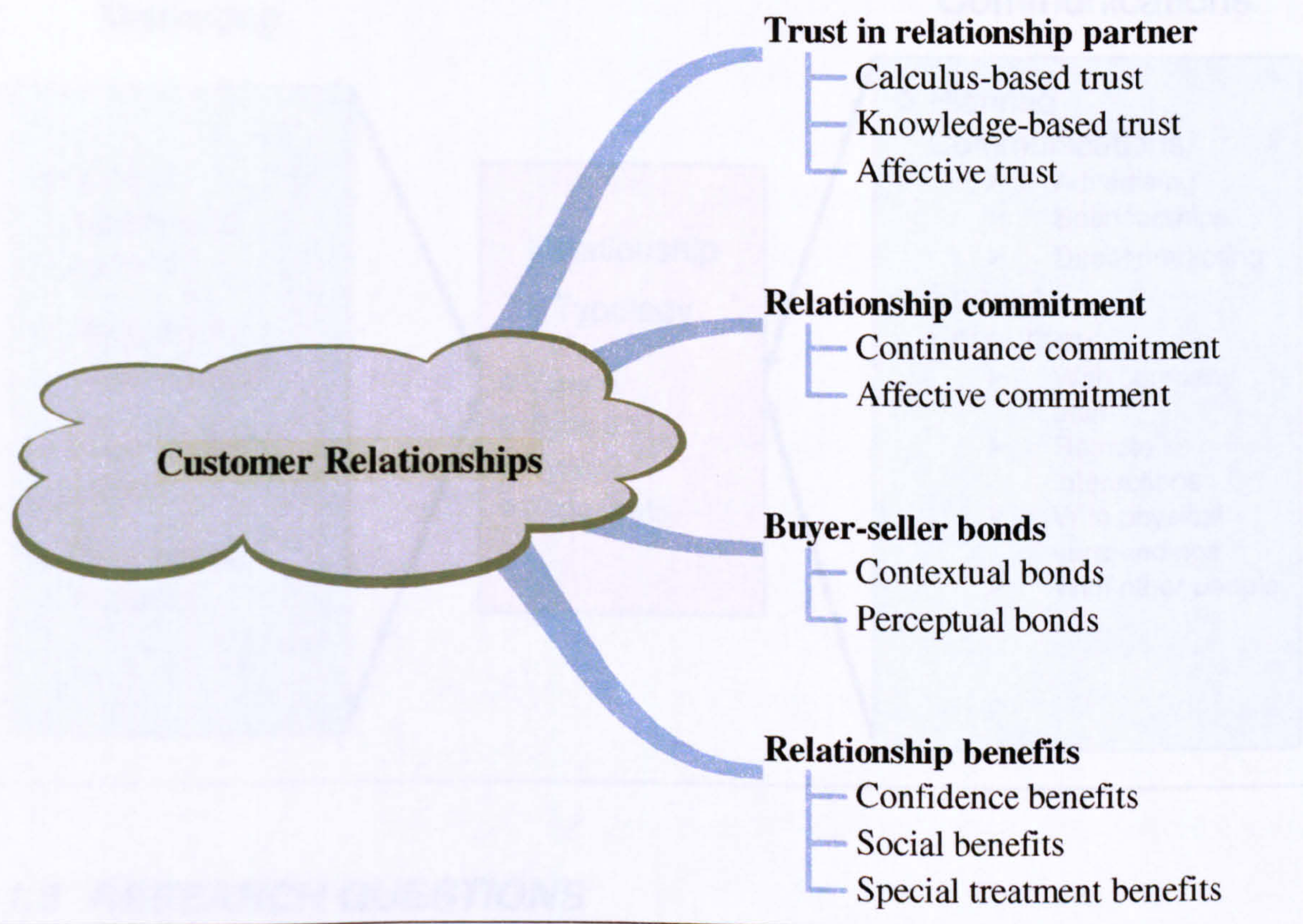
The marketing communications literature posits that communication plays a central role in relationship development. For example, Andersen (2001) reports that communication enables the building of an environment where a relationship can be formed and developed. To the extent that communication establishes an interactive dialogue (Andersen 2001; Keller 2001) and two-way communication (Duncan and Moriarty 1998) between relationship parties, the potential of communication in relationship formation and maintenance will be achieved.

Taking these studies further, the current research presents an enhanced understanding about how to achieve a dialogue through marketing

communications. This research examines various dimensions (i.e. characteristics) of communication (such as personalised versus standard, competent versus incompetent etc), and demonstrates their relative effect on particular relationship types. Consequently, a detailed understanding about which dimensions of marketing communications are likely to promote which relationship components is acquired.

The relationship marketing and marketing communications literatures are used to investigate the communication aspect of customer relationships,. The relationship marketing literature is employed to identify the fundamental components of customer relationships. Subsequently, these components are used as a grounding to build a relationship typology (Figure 1-1.).

Figure 1-1 Fundamental components of customer relationships as informed by relationship marketing literature

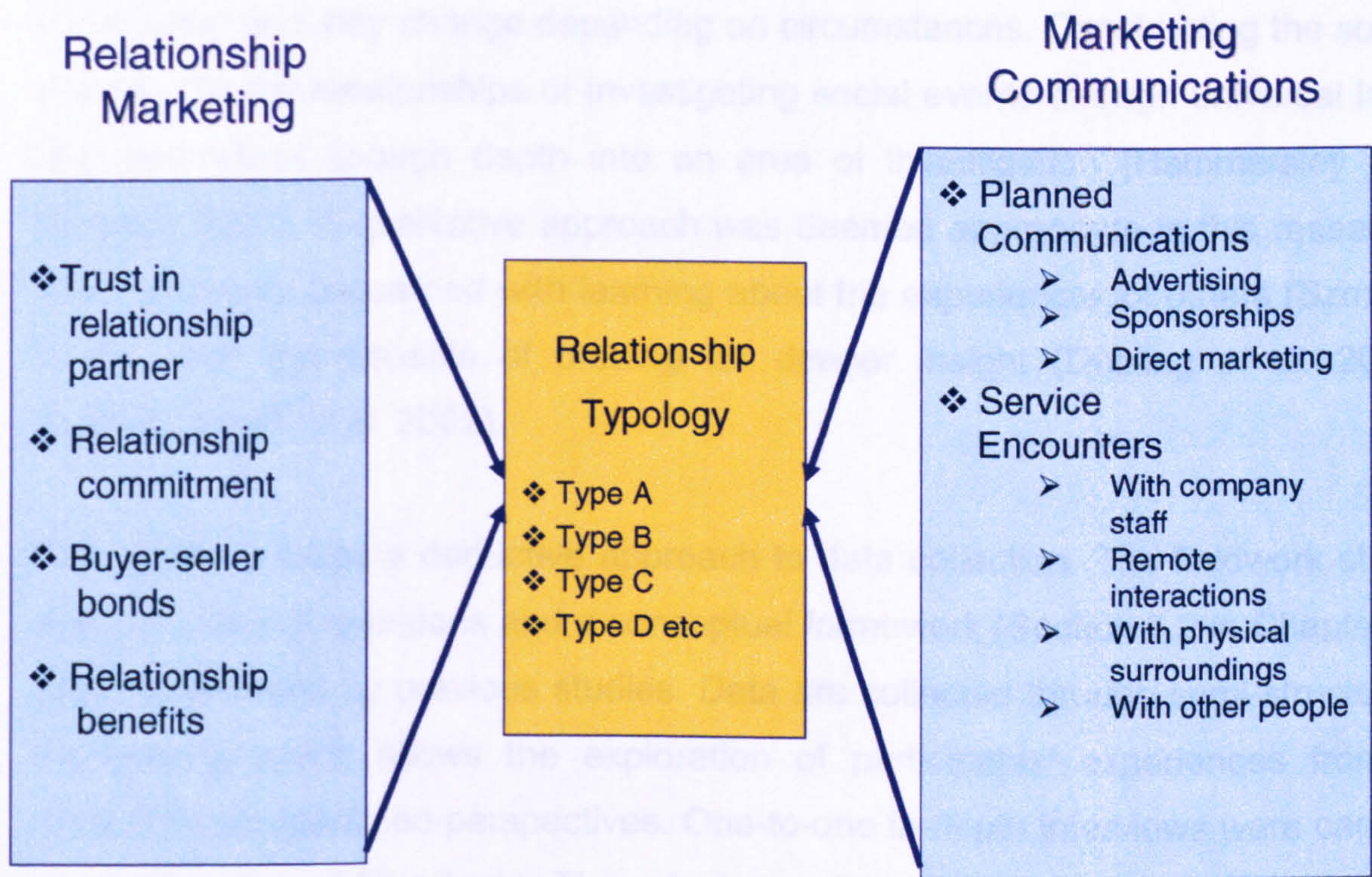


From the marketing communications literature, two main types of communication settings are identified: planned marketing communications and service encounters. In terms of planned marketing communications, three key

communication channels are focused on: advertising, corporate sponsorship and direct marketing. In terms of service encounters, taking a broader approach, service encounters are examined from the perspective of: (1) interactions with service providers (as human and remote interactions), (2) service environment, and (3) interactions with other customers (i.e. word-of-mouth communication).

Figure 1-2 illustrates the conceptual framework used in this research. At the outset of the research, by allowing relationship types to emerge from the data, an open-minded approach was taken to the number of relationship types. After developing a relationship typology, the impact of planned marketing communications and service encounters on each of these relationship types are investigated.

Figure 1-2 Conceptual framework employed in the research process



1.3 RESEARCH QUESTIONS

In order to gain insight into the communication aspect of customer relationships, the following research questions are formulated:

- Q1.** What types of relationships can customers form with their financial institutions?
- Q2.** How, if at all, can planned marketing communications impact on the type of relationship between financial institutions and their customers?
- Q3.** How, if at all, can service encounter interactions impact on the type of relationship between financial institutions and their customers?

1.4 OVERVIEW OF THE RESEARCH METHODOLOGY

Overall, the current research is about understanding people's personal experiences with organisations. In choosing an appropriate methodology, the focus was on how to obtain a deeper understanding of people's own realities. Social constructionism was the philosophical stance that informed the methodology chosen. In social constructionism, knowledge is viewed as socially constructed and may change depending on circumstances. Constructing the social world by causal relationships or investigating social events through universal laws may not reveal enough depth into an area of investigation (Hammersley and Atkinson 2002). A qualitative approach was deemed appropriate in this research, which is largely concerned with learning about the experiences of others (Szmigin 1997) with the benefits of probing for deeper insight (Debling *et al.* 2000; Easterby-Smith *et al.* 2002).

This research takes a deductive approach to data collection. The fieldwork starts with a number of questions and a conceptual framework (Section 5.2 in Chapter 5) which is informed by previous studies. Data are collected through semi-structured interviewing which allows the exploration of participants' experiences from a number of pre-identified perspectives. One-to-one in-depth interviews were carried out with a total of 38 people. The principles of content analysis guided the data analysis, which is a technique for the systematic and objective description and explanation of the textual data (Berelson 1952; Kassarian 1977).

The context of the research was chosen to be the banking sector for a number of reasons. Firstly, the service is a critical determinant of relationships because of encompassing characteristics such as intangibility, heterogeneity and

inseparability of production and consumption processes. Such characteristics make financial services difficult to evaluate even after the purchase, and create risk and uncertainty on the customer. Engaging in a relationship with service providers is a strategy to reduce the perceived risk and to overcome service uncertainty. Secondly, a condition critical to this research is the extensive use of human and remote service encounter interactions. The UK financial institutions offer a variety of face-to-face and remote channels to deliver banking services. Thirdly, as Figure 1-2 illustrates, the investigation is also related to planned marketing communications. The UK banks heavily invest in planned marketing communication practices such as advertising, direct marketing and corporate sponsorship to interact with customers.

1.5 OVERVIEW OF THE RESEARCH FINDINGS

The findings of this research can be discussed under three points. First, this empirical research has extended the work on service provider and customer relationships (Liljander and Strandvik 1995; Beatty *et al.* 1996; Barnes 1997; Price and Arnould 1999; Coulter and Ligas 2004). There is no consensus about what types of relationships customers can establish with organisations; nor what the salient characteristics of such relationships are. There is some evidence that certain service settings can promote specific relationship types (Coulter and Ligas 2004), and different customers can develop different relationships even within the same service setting (Liljander and Strandvik 1995; Barnes 1997). What is missing in the literature is a framework which helps to identify a range of relationships that individual customers can establish with service providers. With the purpose of contributing to this lack of knowledge, a thorough and systematic literature review was carried out, which resulted in the identification of four relationship components and their dimensions (Figure 1-1). Subsequently, four relationship types were identified which can represent various types of relationships customers may establish with their financial institutions: (1) faltering, (2) functional, (3) interactive and (4) affective.

Second, in the current research, the impact of planned marketing communications was examined through three key communication channels: advertising, corporate

sponsorship and direct marketing. Advertising was found to be likely associated with a relationship with limited trust and commitment, and the lack of an affective element (i.e. functional relationship as labelled in this research). However, in situations where the customer perceived the campaign as related to their particular views/values, advertising could promote the formation of some perceptual bonds such as ideological or cultural, and facilitate a closer relationship such as an interactive relationship. Corporate sponsorship was found to be likely to promote a relationship which could be characterised by high trust and commitment, and the existence of an affective element. It appeared that sponsorship needed to be combined with other planned marketing communications in order to achieve its full potential. In terms of direct marketing, two aspects emerged: “relevance” and “diversifying the dialogue”. It was demonstrated that when direct marketing was designed by taking into account the both aspects, the practice had a potential to project an affective element into a relationship. The relevance aspect appeared to be a critical determinant; without which the relationship stayed as a functional type.

Last, moving on to service encounters, the impact of service encounters was examined through personal and remote interactions with service providers, service environment characteristics and interactions with other customers (i.e., word-of-mouth - WOM - communication). It was found that competent staff offering a fast and efficient service in a polite, friendly and helpful manner was a basic requirement for all relationship types. Customers expected a service to be delivered in an efficient environment that was designed in line with corporate branding. It was also a common expectation that, when a service failure was experienced, the provider should have recovered the problem in a timely manner. To the extent that the service was delivered in a personalised manner which took into account the individual cases, this can promote an affective element into a relationship. However, service personalisation should be embedded into the employee training programmes. Otherwise, the potential of the personalised service can be undermined if it is an occasionally experienced aspect of the service delivery. Next, it was demonstrated that affective relationship was more than simply offering an error-free service. When problems were turned into

positive experiences, they could, indeed, facilitate an affective relationship. Six particular service recovery characteristics were found to be important in relationship development: (1) being proactive about the error, (2) continuous communication, (3) refunding the charge/fee, (4) empathetic behaviour, (5) apologising for the error occurred, and (6) having trust in the customer. These service recovery skills needed to be incorporated into the employee training programmes if their full potential was to be achieved. Otherwise, a functional relationship was more likely to be facilitated. Moreover, the research findings suggested that the relationship type was primarily determined by the nature of personal interactions with providers during the service delivery and recovery processes. The service environment and WOM communication were found to be more likely to play a complementary role in the development of customer relationships.

1.6 ORGANISATION OF THE THESIS

This thesis consists of a total of nine chapters. In this chapter, the rationale for and scope of the research has been presented, as well as the summaries of the research questions, methodology used and the findings.

Chapter 2 sets the scene by presenting the evolution of relationship marketing research. This is followed by a systematic review of the customer relationships literature with the purpose of identifying core building blocks of customer relationships.

By focusing on the planned marketing communications literature, Chapter 3 reviews previous studies that bridge the gap between planned marketing communications and customer relationships. Planned marketing communications research is looked at from three widely used communications channels: advertising, corporate sponsorships and direct marketing.

Chapter 4 gives a review of the service encounters literature in order to understand the role of service encounters in customer relationships. By taking a broad approach to service encounters, all aspects of a service encounter,

including human interactions with a service provider as well as its customers, remote interactions, and the service environment and other visible elements of a service, are included in this literature review.

Chapter 5 draws together Chapters 2, 3 and 4 in order to develop a conceptual framework and formulate research questions. The research approach and the methodology chosen for the data collection and data analysis techniques as well as a description of the research context are presented in Chapter 5.

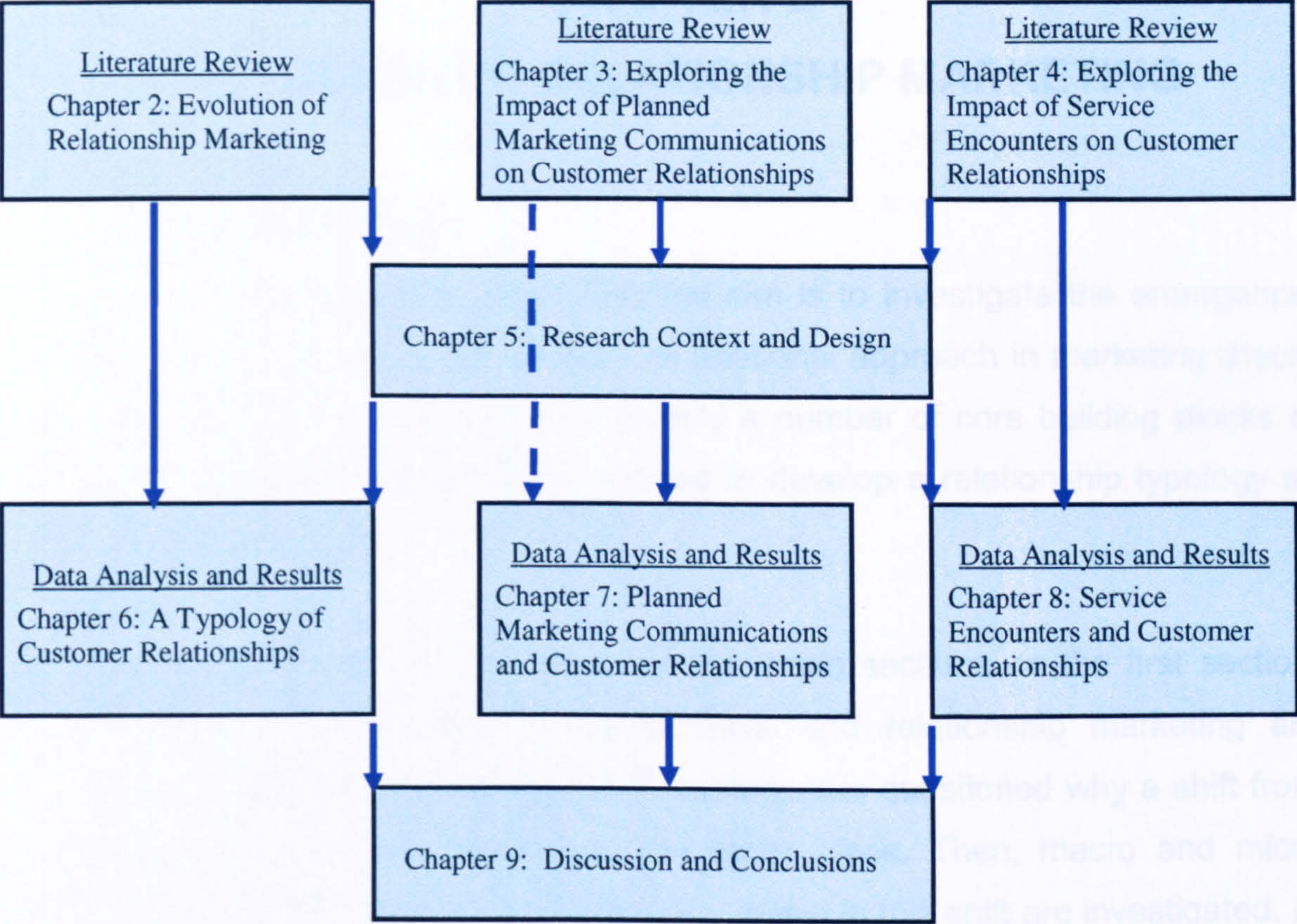
Chapter 6 discusses in detail the research findings relating to the nature of customer relationships. Fundamental relationship components identified in Chapter 2 are used as a basis to develop a customer relationship typology in this chapter.

Chapters 7 and 8 present insight into the communication aspect of relationships. In Chapter 7, three widely used communication channels (advertising, corporate sponsorship and direct marketing) are focused on in order to explore the impact of planned marketing communications on customer relationships. Similarly, in Chapter 8 service encounters are focused on in order to explore the impact of service encounters on customer relationships.

Finally, Chapter 9 examines the communication aspect of customer relationships based on the analyses and findings presented in Chapters 6, 7 and 8. The potential of particular communication activities and their dimensions to affect particular relationship types are discussed in detail. In other words, the first part of Chapter 9 provides answers to the research questions. In addition, the contribution made to (1) customer relationships research, (2) communication channels research, and (3) financial services research are discussed. Chapter 9 concludes with limitations of the study and some suggestions for future research.

To sum up, Figure 1-3 illustrates a visual overview of the thesis structure and how the following chapters are linked to each other.

Figure 1-3 An overview of the organisation of following chapters



CHAPTER 2

EVOLUTION OF RELATIONSHIP MARKETING

2.1 INTRODUCTION

This chapter has two main aims. The first aim is to investigate the emergence, development and the current situation of relational approach in marketing theory and practice. The second aim is to identify a number of core building blocks of customer relationships that can be utilised to develop a relationship typology as discussed in Chapter 6.

To this end, this chapter is divided into four main sections. In the first section, distinguishing characteristics of transactional and relationship marketing are presented. Going back to the early 20th century, it is questioned why a shift from transactional to relational approach has taken place. Then, macro and micro factors and traditions that are likely to have played in this shift are investigated. In the second section, various definitions of relationship marketing are compared with an objective to adopt a definition that could serve as a working definition to guide the conceptual and empirical development of this research. In the third section, special attention is given to service relationships partly due to the context of the research and partly due to their unique characteristics compared with products, i.e., intangibility, inseparability, heterogeneity and perishability. The final section explores fundamental components of customer relationships. It reports in detail why these components could be considered core building blocks and how they may impact on different relationship types between customers and their organisations.

2.2 EMERGENCE OF THE RELATIONSHIP MARKETING CONCEPT

Marketing thought as a discipline goes back to the beginning of the 20th century. The first three quarters of the 20th century was dominated by transactional marketing which is based on the marketing mix and its four Ps as product, price, place and promotion (Sheth and Parvatiyar 1995a). Transactional marketing focuses on single economic transactions with a fundamental aim to acquire

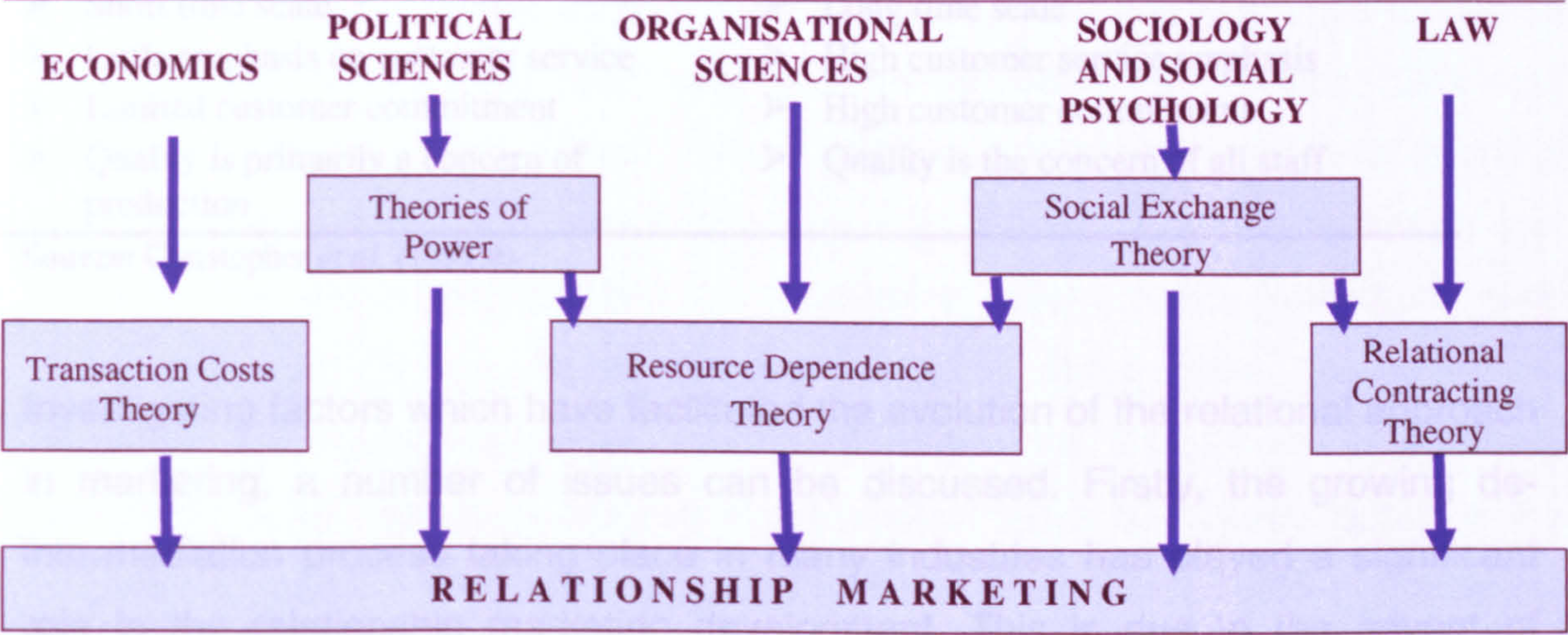
customers from a short-term perspective (Grönroos 1994). Such a marketing view which is centred on product-based exchanges between parties, and not a market- or customer-oriented one now attracts high criticism among marketing scholars. For example, Brodie *et al.* (1997) finds transactional marketing to be outdated, relevant only to certain types of firms and markets, and overly clinical. From a theoretical perspective, O'Malley (2001) reports that transactional marketing was based on weak foundations. Similarly, according to Grönroos (1996), it did not respond well to the competitive situation that was emerging in most industries in the Western world. The changing global competitive environment in the 1950s required a more dynamic approach to marketing with an emphasis on long term competitive advantage (O'Malley 2001). As a form of mass marketing, transactional marketing lacked the capability of accommodating the diversity of customers (Sheth and Parvatiyar 1995b).

As a result of such deficiencies in the transactional approach, a number of alternative marketing approaches have emerged. Relationship marketing currently represents a highly influential school of marketing thought (O'Malley 2001; Eiriz and Wilson 2006). Claimed as providing a foundation for a more realistic alternative to marketing (Gummesson 1997), relationship marketing initially developed as a response to a need to create a marketing approach more suited to services and interorganisational marketing situations (O'Malley 2001). In industrial markets, buyers are not homogeneous and therefore are unsuitable for a standardised approach to marketing. Services marketers similarly argue that the marketing mix is largely inappropriate to their needs because of the unique characteristics of services as discussed in Section 2.4.

The study of professional relationships is not a new area of research. Although the “relationship marketing” concept appeared in the services marketing literature for the first time in 1983 (Berry 1995), it can be traced back to the pre-industrial societies (Sheth and Parvatiyar 1995a; Berry 2000; Payne 2000). A number of disciplines have contributed to the evolution of relationship marketing and to its recognition as an influential school of marketing thought (Brodie *et al.* 1997; Eiriz and Wilson 2006). The most notable disciplines in this respect can be stated as

economics, political sciences, sociology, social psychology, law and organisational sciences (Eiriz and Wilson 2006), which are illustrated in Figure 2-1.

Figure 2-1 An overview of contributing disciplines to relationship marketing



Source: Eiriz and Wilson (2006: 278)

According to relationship marketing, the basic concept of marketing should be the relationship itself rather than singular exchanges (Grönroos 1996). In contrast to a transactional approach, a relationship has a longer-term notion with a focus on customer retention through the formation and enhancement of long-term, mutually beneficial relationships between organisations and customers (Sheth and Parvatiyar 1995b). Benefits of customer retention to firms have received increasing attention from marketing scholars. For example, according to Sheth and Parvatiyar (1995b) a customer who has been with a bank for five years is far more profitable than a customer who has been with a bank for one year. Table 2-1 lists the main characteristics of the two marketing approaches in a comparative way.

An ongoing debate in the relationship marketing literature is about whether the relational approach to marketing presents a paradigmatic shift in marketing theory and practice. Four main relationship marketing traditions have fuelled the debate. Firstly, the Nordic School of Service, looking at marketing from a service

Table 2-1 Characteristics of transactional and relationship marketing

Transactional focus	Relationship focus
<ul style="list-style-type: none">➤ Focus on single sale➤ Discontinuous customer contact➤ Orientation on product features➤ Short time scale➤ Little emphasis on customer service➤ Limited customer commitment➤ Quality is primarily a concern of production	<ul style="list-style-type: none">➤ Focus on customer retention➤ Continuous customer contact➤ Orientation on product benefits➤ Long time scale➤ High customer service emphasis➤ High customer commitment➤ Quality is the concern of all staff

Source: Christopher *et al.* (1991:9).

Investigating factors which have facilitated the evolution of the relational approach in marketing, a number of issues can be discussed. Firstly, the growing de-intermediation process taking place in many industries has played a significant role in the relationship marketing development. This is due to the advent of sophisticated computer and telecommunication technologies that allows producers to interact directly with end-customers and individualise their marketing efforts. As a result, producers do not need those functions formerly performed by middlemen (Sheth and Parvatiyar 2000). Secondly, the intensifying competition in the late 1970s and early 1980s, including the deregulation of banking, airline and other service industries, reinforced the development of services marketing. Consequently, from the mid 1990s customer retention has become imperative (Berry 1995). Thirdly, radical advances in information technology in the 1980s, most notably in the form of database marketing, decreased the costs and enabled organisations to communicate with individual customers in a cost-efficient way (Eiriz and Wilson 2006). In other words, developments in information technology have made relationship marketing programmes more affordable, feasible and powerful (Berry 1995). Finally, customer expectations have changed rapidly over the past two decades fuelled by new technology and growing availability of advanced product features and services, necessitating a customer-centred approach (Sheth and Parvatiyar 2000).

An ongoing debate in the relationship marketing literature is about whether the relational approach to marketing presents a paradigmatic shift in marketing theory and practice. Four main relationship marketing traditions have fuelled the debate. Firstly, the Nordic School of Service, looking at marketing from a service

perspective, vigorously argue that the relationship marketing is the biggest paradigmatic shift in marketing and currently represents the dominant paradigm of marketing (e.g., Grönroos 1996; Gummesson 1997). The School has originally grown out of the research into services marketing in Scandinavia and Finland. Fundamental to the Nordic School is the view that marketing is a cross-functional process and not just the responsibility of those within the function (Grönroos 1989). Adherents of this School believe that for a company to achieve effective marketing and delivery of services it needs to practice internal marketing and involve the entire organisation in developing relationships with customers (Grönroos 1989). The Nordic School identifies three core processes as interaction, dialogue and value. The relationship, once it has been established, proceeds in an interaction process where various types of contacts between the supplier or service firm and the customer occur over time. Some contacts are between people, some are between customers and machines and systems, and some are between systems of the supplier and customer. As the exchange of a product is the core of transaction marketing, the management of an interaction process is the core of relationship marketing. Additional processes are those of dialogue and value. The dialogue process is necessary as a means to support the successful establishment, maintenance, and enhancement of the interaction process. The value process is important as the product is essentially service-based and intangible (Palmer *et al.* 2005).

Similarly, the Industrial Marketing and Purchasing (IMP) Group, which emerged in the 1970s, believes that marketing ought to be built on relationships rather than transactions. The IMP group lays emphasis on the understanding of organisational relationships in business-to-business markets. The Group expresses the view that what is happening in a relationship between two companies does not only depend on the two parties but also what is going on in a number of other relationships (Ford 1980; Anderson *et al.* 1994; Hakansson and Snehota 1995). The IMP interaction model is based on insight developed through a study of more than 300 industrial marketing relationships (Hakansson and Snehota 1995). By identifying interactions among actors, the model traces the nature and sources of relationship development among multiple actors (Anderson *et al.* 1994).

In contrast, in North America research into services marketing has, to a large extent, remained within the boundaries of the marketing mix paradigm (Grönroos 1994) with a few exceptions (i.e., Berry 1983; Levitt 1983; Czepiel 1990). These relatively fewer number of relationship marketing advocates have similar relationship marketing views to those of the Nordic School. However, the North American approach is dyadic in nature and emphasises a relationship solely between the buyer and seller (Berry 1983; Czepiel 1990). This tradition is characterised by the work of Berry (1983) and Levitt (1983).

Finally, the Anglo-Australian approach is based on the work of Christopher *et al.* (1991), and emphasises the integration of quality, customer service and marketing functions. A prominent feature is the introduction of six markets or stakeholder groups that the firm should address in varying degrees to achieve its objectives. These include customer markets, employee markets, supply markets, internal markets, referral markets and influencer markets such as governmental and financial markets. Contrary to the North American approach, the Anglo-Australian School takes the view that, rather than simply focusing on the end-user, a wider view of marketing is necessary in order to build and sustain customer value. This can be achieved by building relationships with a number of constituencies (Payne *et al.* 1996).

Having presented four main relationship marketing traditions, it should be stressed that the current trend in marketing appears to be bringing together transactional and relational approaches, rather than treating them as alternatives to each other. There is some evidence that organisations practice both transactional and relational marketing to a varying extent (Brodie *et al.* 1997; Coviello and Brodie 1998; Pillai and Sharma 2003). Hence, it is argued that neither relational nor transactional marketing by itself can fully reflect the essence of current marketing practise (Coviello and Brodie 1998). One reason for this may be due to the practicalities and costs associated with the implementation of relationship marketing (Coviello and Brodie 1998) to every service setting (Berry 1995) or to consumer markets in particular (O'Malley and Tynan 2001).

2.3 DEFINING RELATIONSHIP MARKETING

Each relationship marketing tradition has its own way of approaching and interpreting the relationship marketing concept, therefore making it difficult to reach one agreed definition. For example, there seems to be a distinction between the European and American definition of relationship marketing. In general, European academics tend to approach relationship marketing more broadly:

Marketing from a relational perspective ... the process of identifying and establishing, maintaining, enhancing and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of the parties involved are met, where this is done by mutual giving and fulfilment of promises. (Grönroos 1997:407)

while the North American Group supports a narrower definition at the customer-supplier dyad level:

... the ongoing process of engaging in cooperative and collaborative activities and programmes with immediate and end-user customers to create or enhance mutual economic value at reduced cost. (Sheth and Parvatiyar 2000:9)

Trying to bring together the two types of approaches, Payne (2000) suggests that “customer relationship marketing” could be used in reference to relationships with customers and “relationship marketing” in reference to the broader definition.

Moreover, the lack of a precise definition can be explained by the relationship marketing still being in a development process. At a macro level the concept is a social phenomenon (Gummesson 1997) and at a micro level it is the richness and associated complexity of relationships themselves (Brodie *et al.* 1997). This makes it difficult to reach a precise relationship marketing definition agreed commonly by all scholars.

A fundamental aspect of relationship marketing is the encouragement of customer retention, which reflects itself clearly in the early definitions of relationship

marketing: attracting, maintaining and enhancing relationships with customers (Berry 1983). Built on Berry's definition, the boundaries of relationship marketing have been widened to include mutual exchanges which are (1) cooperative and collaborative (Sheth and Parvatiyar 2000), (2) beneficial to all parties involved (Levitt 1983; Czepiel 1990; O'Malley *et al.* 1997; Bhattacharya and Bolton 2000; Patterson and Ward 2000), (3) interdependent (Dwyer *et al.* 1987; Hakansson and Snehota 1995), and (4) long-term in orientation (Dwyer *et al.* 1987; Hakansson and Snehota 1995; Harris and O'Malley 2000). Additionally, it is widely accepted that a relationship is about a number of successive interactions on a continuous basis (Patterson and Ward 2000; Odekerken-Schröder *et al.* 2003); implying the process aspect of relationship development and maintenance (Berry 1983; Morgan and Hunt 1994; O'Malley *et al.* 1997; Grönroos 2000b; Sheth and Parvatiyar 2000). Managing a relationship is about coordinating a chain of activities as one total process, from delivering the core product to advertising, taking care of complaints and recovering mistakes and quality faults (Grönroos 1996).

In light of these definitions of relationship marketing, the following definition was developed to serve as a working definition throughout this research: "Relationship marketing is the process of creating collaborative exchanges between organisations and their individual customers on a long-term basis. Such relationships are characterised with a level of customer confidence in their organisations, interdependence through some kind of bonds, and being beneficial to both parties involved".

Before moving on to the core building blocks of customer relationships, it will be useful to have a brief look at relationships in services marketing due to unique characteristics of services in contrast with manufactured goods.

2.4 SERVICE RELATIONSHIPS

Customer relationships are viewed as a company's most precious asset (Levitt 1983) and the cornerstone of many successful businesses (Payne 2000). The importance of relationships is widely accepted by researchers and practitioners

from all sectors. Yet, it is in the areas of industrial and services marketing that relationship marketing has its origins (Payne 2000; O'Malley and Tynan 2001).

Investigating why service relationships have received intensive interest in the relationship marketing literature, first, four main unique characteristics distinguishing services them from other sectors need to be explained. These characteristics are intangibility, inseparability, heterogeneity and perishability (Gabbott and Hogg 1994; O'Malley 2001). Starting with the intangibility characteristic, this means that services do not have a physical dimension. Customers cannot see, touch, hear, taste or smell a service, but can only experience it, highlighting the central role of service encounters which is discussed in Chapter 4. The second characteristic is the inseparability of the production and consumption aspects. Goods are produced, sold, and then consumed; whereas services are first sold and then produced and consumed simultaneously with the active participation of the customer in the process. In other words, customers actively participate in both production and delivery of a service. Such simultaneous interactions between the buyer and seller make the standardisation of the service production difficult. Thirdly, the heterogeneity of services is about the potential of high variation among services. Each service encounter is likely to be different because of parties taking part in the interaction or even time of the performance. Finally, the perishability characteristic refers to the real time nature of services. Unlike goods, services cannot be stored. The time at which customers decide to use the service may be critical to the performance or the customer's experience. In consequent, owing to these four unique characteristics of services, customers form opinions towards service providers based on the nature of communication taking place with the organisation during the production and delivery of services.

Concentrating on how these four characteristics impact on a relationship development process, relationship marketing is viewed as a strategy to overcome service intangibility (Berry 1983; Colgate and Danaher 2000). The intangible nature of services makes them difficult for customers to evaluate prior to purchase or sometimes even after the purchase and consumption because they might lack the technical knowledge to do so, as in the case of purchasing a financial

investment product or medical advice (Sharma and Patterson 1999). This often means that customers must rely on the credibility of service providers and their previous experiences with them to understand whether the promised service will meet their expectations (O'Malley and Tynan 2001). The service provider may be the most tangible aspect of the service and may, in the eyes of customers, be equated with the service itself. A strong, healthy relationship between customers and service providers engenders the trust that is necessary for customers to commit to the service (Claycomb and Martin 2002). Moreover, a relationship between a service provider and a customer seldom ends when a sale is made. Increasingly, the relationship intensifies after the sale and influences the customer's future purchase decisions (Levitt 1983). For all these reasons, the concept of a relationship between a buyer and seller is argued to be relevant for service researchers and practitioners.

Furthermore, the social nature of service encounters and difficulty in assessing service quality highlight the importance of relationships in services sector (Czepiel 1990). The practice of relationship marketing is stated to be the most applicable to a service firm when each of the following conditions exists (Berry 1983): (1) there is an ongoing or periodic desire for the service on the part of the service customer; (2) the service customer controls selection of the service supplier, and (3) there are alternative service suppliers, and customer switching from one to another is common.

2.5 CORE BUILDING BLOCKS OF CUSTOMER RELATIONSHIPS

The rapidly expanding relationship marketing literature emphasises the inherent variability and unpredictability of relationships due to (1) co-existence of both transactional and relational exchanges (Laing and Lian 2005), (2) a relational orientation turning into a transactional orientation in line with the length of relationship (Pillai and Sharma 2003), and (3) following non-linear development patterns driven by dynamic interactions between the buyer and seller (Anderson *et al.* 1994; Laing and Lian 2005).

Given the complexity and variety of relationships, there is no consensus on what type of relationships customers can have with service providers, nor what the

salient characteristics of such relationships are. However, the business-to-customer marketing literature suggests that customer relationships range from more formal interactions to more personal relationships with varying levels of core relationship components (Liljander and Strandvik 1995; Sheaves and Barnes 1996; Barnes 1997; Patterson and Ward 2000; Liljander and Roos 2002). Formal relationships are unlikely to be characterized by much feeling or emotion between the parties whereas personal relationships resemble close relationships as referred to the psychology literature as involving warmth, intimacy and commitment (Sheaves and Barnes 1996). In some situations, formal relationships are likely to remain formal, and in some others there is the potential for such relationships to evolve into more personal or closer relationships. Such dynamic nature of relationships means that relationships develop over time through multiple interactions between the buyer and seller. Nevertheless, mere interactions between the parties are not sufficient in order for a relationship to be encouraged. For a series of interactions to be considered a relationship, such interactions should encompass a number of characteristics. Concentrating on the most widely recognised components of customer relationships which have empirical support, fundamental components of customer relationships are identified as (1) customer trust in relationship partner, (2) relationship commitment, (3) buyer-seller bonds and (4) relationship benefits (e.g., Dwyer *et al.* 1987; Grönroos 1994; Morgan and Hunt 1994; Liljander and Strandvik 1995; Sheth and Parvatiyar 1995b; Doney and Cannon 1997; Gwinner *et al.* 1998; Garbarino and Johnson 1999; Sharma and Patterson 1999; Laing and Lian 2005). These components are discussed in turn in the following sections.

2.5.1 Customer Trust in Relationship Partner

Trust is a widely recognised construct in the relationship marketing literature as a fundamental component of successful relationships (Dwyer *et al.* 1987; Grönroos 1994; Morgan and Hunt 1994; Doney and Cannon 1997; Garbarino and Johnson 1999; Liljander and Roos 2002). As a gateway between past and future, trust is a future oriented concept (Ganesan 1994) while based on past experiences (Fletcher and Peters 1997). Among many definitions of trust, a comprehensive one is offered by Mayer *et al.* (1995:712):

The willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party.

A willingness to make oneself vulnerable is facilitated by having a feeling of security and confidence in the reliability, honesty and justice of the other party (Lindskold 1978; Morgan and Hunt 1994). Hence, trust enables long term relationships to be established (Fletcher and Peters 1997) and helps to reduce perceived risk and uncertainty which is inherent in market exchanges (Selnes 1998). The risk reduction role of trust is believed to be central in relationship enhancement (Selnes 1998). While reducing perceived risk and uncertainty, trust puts participating parties in a vulnerable position. Trust is not predicated on evidence, but on the lack of contrary evidence. This feature is believed to make the trustor vulnerable to actions of the trustee (Fletcher and Peters 1997).

Three characteristics of the trustee are reported to be significant in determining the nature of trust in a business setting: ability, benevolence and integrity (Lindskold 1978; Mayer *et al.* 1995; Johnson and Grayson 2000). Ability is about a group of skills, competencies and expertise that a party has on a specific subject or area. The trustee, first of all, needs to be perceived as having a thorough knowledge of the profession and the organisation in order to be trusted on the subject area. However, having ability does not assure that the trustee would present helpful behaviour. The trustee needs to have a positive orientation or some specific attachment toward the trustor, aside from a mere profit motive, which is called benevolence. Finally, the trustee should possess a set of principles that are acceptable to the trustor, such as consistency of the party's past actions, having a strong sense of justice and credible reputation, all of which affect the level of integrity.

Early theories of trust describe the concept as a unidimensional phenomenon that simply increases or decreases in magnitude and strength in a relationship. More recent approaches reject this view and suggest that trust is a multidimensional construct (Mayer *et al.* 1995; Lewicki and Bunker 1996; Johnson and Grayson 2000). Based on the underlying dimension(s) in a given situation different trust types are to be established. The most commonly cited types of trust are calculus-

based trust, knowledge-based trust and affective trust (e.g., Lewicki and Bunker 1996; Johnson and Grayson 2000; Liljander and Roos 2002).

Calculus-based trust

Calculus-based trust is largely cognitive driven and stems from a belief that it is in the provider's best interest not to suffer the loss of reputation and profits that a violation of trust would lead to (Lewicki and Bunker 1996). Because of this self-interest assumption, some authors call this type of trust as "self-interest-based positive expectation" (e.g., Saporito *et al.* 2004).

Johnson and Grayson (2000) discuss that calculus-based trust develops from two main sources. Generalised trust is the general level of confidence in the absence of reason to doubt based on general social norms. System trust, on the other hand, is based on a community's written rules and the effectiveness of regulatory institutions in enforcing these rules. In other words, the benevolence of provider is based on the cost of deterrence. Relationship partners build calculus-based trust slowly by going through simple actions as indicators of their trustworthiness and by systematically testing the other's trust. A simple event of inconsistency or unreliability may take the relationship back to several steps or in the worst case to dissolution. Thus, calculus-based trust is often quite fragile due to a lack of history to rely on (Lewicki and Bunker 1996) which could be characterised by no or little communication between the partners.

Knowledge-based trust

Knowledge-based trust which relies on information rather than deterrence acquired over time through repeated interactions (Lewicki and Bunker 1996; Johnson and Grayson 2000; Liljander and Roos 2002). Regular and repeated exchanges between parties are stated to enable the parties to build trust by demonstrating equity and reciprocity (Fletcher and Peters 1997). For this type of trust to be established, parties should know each other sufficiently well to be able to predict their behaviour (Lewicki and Bunker 1996). This, in turn, will lead to increased interdependence and vulnerability between the parties (Johnson and Grayson 2000). Taking into account that interactions are inherently

communication, it can be inferred that communication between the parties would play a central role in the formation and development of knowledge-based trust.

The effect of a violation of knowledge-based trust depends on the extent to which the events are under the trustee's control. Temporary events may be ignored and trust can eventually be restored through successive encounters (Johnson and Grayson 2000; Liljander and Roos 2002). Moreover, as in the calculus-based trust, knowledge-based trust is a largely cognitive-driven phenomenon; therefore some authors consolidate these two trust types under "cognition-based trust" (McAllister 1995; Tomiuk and Pinsonneault 2001), described as reliability and dependability of the trustee (McAllister 1995).

Affective trust

Affective (or identification-based) trust is grounded in emotional ties between parties (Mayer *et al.* 1995; McAllister 1995). This type of trust develops as parties know and predict each other's needs, choices and preferences, and also share some of those same needs, choices and preferences as their own (Lewicki and Bunker 1996). This mutual understanding develops to the point that each person can effectively act for the other and tend to defend each other against criticism from outsiders (Lewicki and Wiethoff 2000). In contrast to calculus-based and knowledge-based trust, affective trust is based on perceptions of interpersonal care and concern, and mutual need satisfaction. Customers with affective trust, thus, have full confidence in the service provider and believe that the provider will act in their best interest (Liljander and Roos 2002). For this type of trust to develop some level of cognition-based trust (i.e., reliability and dependability) is necessary (McAllister 1995).

Owing to the existence of emotional ties between parties, a violation of affective trust needs to be of large magnitude to dissolve the relationship (Liljander and Roos 2002). Although affective trust tends to occur most frequently in intimate personal relationships, it can also develop in business relationships if the parties come to know each other very well (Lewicki and Wiethoff 2000). Establishing such trust is likely to make business relationships closer and more personal.

In parallel with the knowledge-based trust, communication plays a critical role in the development of affective trust. It would be hard to reach a mutual understanding, give perceptions of caring behaviour and establishing emotional ties without some level of communication taking place between the parties.

Closeness and customer trust in relationship partner

A trusting relationship is argued to be essential for establishing closeness in a relationship. According to the IMP group, closeness is approached as a component of the relationship atmosphere and is stated to reduce social distance between the parties (Ford 1980). Closeness also helps to establish social bonding by developing an extensive contact pattern (Nielson 1998) and hence create interdependence between relationship partners (Berscheid *et al.* 1989). In contrast, less close relationships are reported to be at some risk of dissolution (Barnes 1997). Therefore it is argued that closeness should be viewed as one of the key discriminating relationship characteristics (Berscheid *et al.* 1989; Laing and Lian 2005).

Investigating which type of trust is more likely to promote closeness in a relationship, studies by Nielson (1998) and Laing and Lian (2005) shed light on this question. In a study of industrial buyer – seller relationships, Nielson (1998) presents empirical evidence that trust is a main component to have a direct impact on the relationship closeness. Nielson (1998) does not specify whether confidence felt in the other party is due to calculus-based, knowledge-based or affective trust. However, since trust is hypothesised to be impacting on longer-term outcomes such as investing in relationship specific assets, joint working and information sharing it is possible that knowledge-based or affective trust is the type of trust Nielson (1998) investigates. Similarly, Laing and Lian (2005) identify different forms of closeness which accompany different levels of trust. The authors argue that, depending on the nature of relationship which is characterised by the type of trust among other components, partners show different types of closeness ranging from “arms’ length” to “close”, “interactive”, “embedded” and “internalised”. It could, hence, be stated that knowledge-based and affective trust are likely to facilitate the formation of a close relationship.

It is argued that strong calculus and knowledge-based trust is critical to any stable relationship, but affective trust is likely to strengthen the overall trust between parties and to create a bond that is more difficult to break (McAllister 1995; Lewicki and Wiethoff 2000). Relationships which are merely based on calculus-based trust are demonstrated to be the most fragile type with little potential for competitive advantage (Saparito *et al.* 2004). As encounters progress between parties, relationships are believed more likely to be characterised by knowledge-based or affective trust (Liljander and Roos 2002) with high potential for competitive advantage (Johnson and Grayson 2000; Saparito *et al.* 2004). Furthermore, it is noted that customers do not always move from calculus-based trust to knowledge-based or affective trust, but they may remain at the same type throughout a relationship (Liljander and Roos 2002).

From this review, it is proposed that a relationship is characterised by calculus-based, knowledge-based or affective trust. The underlying dimension will determine the nature of the relationship between the parties. A closer relationship is assumed to involve some form of knowledge-based or affective trust, an extensive contact pattern and bonding behaviour. On the other hand, when a relationship is perceived as a less close relationship it will be grounded in generalised- or system-trust, customers are expected to present calculus-based trust.

2.5.2 Relationship Commitment

In a similar manner to trust, the concept of commitment is recognised as an essential ingredient for successful long-term relationships (Dwyer *et al.* 1987; Morgan and Hunt 1994; Liljander and Strandvik 1995; Wetzels *et al.* 1998; Garbarino and Johnson 1999; Sharma and Patterson 1999). Going beyond repeat purchase behaviour and inducement, commitment is about a conscious intention of the parties toward a long-term relationship, which is different from the longevity of a relationship. Although the duration of a relationship is likely to affect the parties' long-term orientation, longevity in itself is not sufficient to understand the nature of commitment (Ganesan 1994).

There are a number of commitment definitions in the relationship marketing literature. A commonality among these definitions is that commitment is viewed as an intention to continue the relationship in the future (Dwyer *et al.* 1987; Moorman *et al.* 1992; Morgan and Hunt 1994; Sheaves and Barnes 1996; Wetzels *et al.* 1998; Zineldin and Jonsson 2000). In addition, most commitment definitions consider the construct as a stabilising or obliging force that impacts on consumer behaviour, such as by restricting freedom or binding the person to a course of action. Binding force is agreed on as a core essence of relationship commitment (Meyer and Herscovitch 2001). However, there is less agreement on the underlying basis for this force. One group of researchers emphasises the emotional content of commitment (e.g., Morgan and Hunt 1994; Garbarino and Johnson 1999) while others stress behavioural commitment out of perceived obligation or need (e.g., Bendapudi and Berry 1997). The lack of consensus in the definition of commitment has contributed to the construct being viewed as a multidimensional concept (Meyer and Herscovitch 2001), which is the current trend in the marketing literature (e.g., Allen and Meyer 1990; Bendapudi and Berry 1997; Wetzels *et al.* 1998; Gruen *et al.* 2000; Liljander and Roos 2002; Bansal *et al.* 2004; Gounaris 2005).

The relationship commitment literature suggests that affective (desire-based) and continuance (cost-based) commitment are grounded in different disciplinary roots (Bendapudi and Berry 1997) or mind-sets (Meyer and Herscovitch 2001). There are limited empirical studies which make a distinction between the two types of commitment. It is, however, important that an explicit distinction is made between the two types. There is some evidence that underlying dynamics of affective and continuance commitment are different (Jacoby and Kyner 1973). It is reported that continuance commitment has significantly different effects on behavioural intentions than affective commitment (Gounaris 2005) as discussed in the following sections.

Affective commitment

The psychological perspective focuses on the affective responses of a party to a relationship, which is termed affective commitment (Allen and Meyer 1990; Wetzels *et al.* 1998; Fullerton 2003) or dedication-based relationship maintenance

(Bendapudi and Berry 1997). In some studies, affective commitment is labelled as normative commitment (Meyer and Herscovitch 2001) while the branding literature use brand loyalty term (Jacoby and Kyner 1973).

Many of the initial conceptualisations of commitment tap the affective dimension of commitment (e.g., Anderson and Weitz 1992; Dick and Basu 1994; Morgan and Hunt 1994; Garbarino and Johnson 1999; Sharma and Patterson 1999) and treat commitment as a single construct (Gounaris 2005). Affective commitment refers to sharing, identifying with, or internalising the values of an organisation (Morgan and Hunt 1994), which forms a sense of favourable emotional attachment to a relationship (Allen and Meyer 1990; Morgan and Hunt 1994; Wetzels *et al.* 1998; Garbarino and Johnson 1999; Fullerton 2003). Affectively committed customers report receiving a superior service from their providers compared with that for alternatives (Sheaves and Barnes 1996; Liljander and Roos 2002), and also present a strong desire to stay in the relationship (Bendapudi and Berry 1997; Wetzels *et al.* 1998; Gruen *et al.* 2000; Liljander and Roos 2002). This type of commitment is reported more likely to be characterised with affective trust (Wetzels *et al.* 1998; Liljander and Roos 2002), and cultural, ideological and psychological bonds (Liljander and Strandvik 1995).

Research suggests that affective commitment is particularly important for establishing, maintaining and enhancing relationships between partners by positively influencing parties' intentions and desire to stay in a relationship and willingness to invest in relationships (Gounaris 2005). In addition, affective commitment minimises opportunistic behaviour and discourages customer switching (Wetzels *et al.* 1998) as well as facilitating positive word-of-mouth recommendations (Dick and Basu 1994).

Continuance commitment

The economic perspective explains the relationship maintenance based on a cognitive evaluation of all gains and losses, or rewards and punishments associated with continuing or terminating the relationship (Bendapudi and Berry 1997). This type of commitment is accompanied by a cost-avoidance mind-set (Meyer and Herscovitch 2001), and therefore is called continuance- (Allen and

Meyer 1990; Gruen *et al.* 2000; Fullerton 2003) or calculative-commitment (Wetzels *et al.* 1998), or dependence-based relationship maintenance (Bendapudi and Berry 1997). Emotional attachment plays a minimal role in continuance commitment (Allen and Meyer 1990). Instead, feelings of dependence and entrapment are the basis for these relationships due to economic, social or psychological costs (Bansal *et al.* 2004).

Furthermore, some customers are motivated to preserve their relationships out of familiarity, predictability (Stern 1997), habit, convenience (Ball *et al.* 2004) or inertia (Sheth and Parvatiyar 1995b). Even though they may be aware of alternatives, they may feel no need to try them due to customer investments of time, money and energy. It is noted that consumer behaviour in the retailing of financial services has often been characterised by inertia owing to the perceived little differences between service providers (Jones and Farquhar 2003; O'Loughlin *et al.* 2004) or difficulties in switching providers (Panther and Farquhar 2004).

Continuance commitment is also viewed as a customer strategy to reduce perceived risk associated with the uncertainty and magnitude of relationship outcomes (Mitchell and Greatedorex 1993; Sheth and Parvatiyar 1995b). In changing an existing provider, customers are indicated to face considerable risk and uncertainty particularly in high credence services such as financial services (Sharma and Patterson 2000).

Continuance commitment is likely to be built on some kinds of bonds acting as an exit barrier on the part of the customer, such as switching costs, dependence on the service supplier or lack of alternatives (Allen and Meyer 1990; Liljander and Strandvik 1995; Bunker 2002; Fullerton 2003). If costs of switching are high or if the customer perceives that there are few alternative providers available, then a constraint-based force develops, binding the customer to the service provider out of a need (Bansal *et al.* 2004).

Continuance commitment is stated to have positive influences on development of opportunism, therefore ultimately would have a negative impact on relationships (Wetzels *et al.* 1998). For example, customers with predominantly continuance

commitment are demonstrated to have little intention to invest in relationships (Gounaris 2005). Continuance commitment creates dependencies on customers while affective commitment creates favourable intentions that help to maintain and enhance the relationship (Gounaris 2005). Nonetheless, there is not much empirical guidance for organisations on how to make their customers affectively committed. Therefore, it does not come as a surprise that in professional relationships most customers are found as having continuance commitment (Liljander and Roos 2002), particularly in the context of retail financial services (O'Loughlin *et al.* 2004; Panther and Farquhar 2004).

Having discussed the two main types of relationship commitment, customer relationship proneness is investigated now due to its role in facilitating relationship commitment.

Customer relationship proneness and relationship commitment

For a relationship to be established, both the buyer and seller should be interested in forming a relationship (Grönroos 1996; Sheaves and Barnes 1996; Berry 2000). It is acknowledged that not all customers want a relationship with organisations (Ganesan 1994; Patterson and Ward 2000). Some customers may consider attempts by their organisations to form a long-term relationship as an invasion of privacy, and may prefer a more distant relationship (Bove and Johnson 2000). In contrast, others may be intrinsically inclined to engage in a relationship and may welcome relational attempts by their organisations (Berry 1995; Odekerken-Schröder *et al.* 2003). Referring to such a tendency as relationship proneness, Odekerken-Schröder *et al.* (2003:180) define the construct as “a consumer’s relatively stable and conscious tendency to engage in relationships with retailers of a particular product category”. According to these authors, relationship proneness is about a general tendency of customers to engage in relationships with retailers of a particular product category as opposed to maintaining or enhancing a relationship with a specific retailer. Despite the agreement on the importance of relationship proneness on customer relationships, there is a scarcity of empirical studies supporting this view (Liljander and Roos 2002).

In addition to relationship formation, customer relationship proneness is reported likely to impact on the relationship development (Odekerken-Schröder *et al.* 2003). Odekerken-Schröder *et al.* have found that relationship prone customers have a higher tendency to remain loyal to their retailers. This was a conscious tendency rather than commitment out of inertia or convenience. Hence, it may be interpreted that relationship prone customers are more likely to develop affective commitment towards their service providers.

It needs to be highlighted that there is consensus among relationship marketing scholars that relationship proneness is inherent and influenced by customer personality traits which is hard to control by firms (Sheaves and Barnes 1996; Gutek *et al.* 1999; de Wulf *et al.* 2001; Odekerken-Schröder *et al.* 2003). Therefore, it is crucial for firms, firstly, to identify segments of customers who are inclined to engage in relationships (Barnes 1997; Bendapudi and Berry 1997), and then design their marketing strategies based on the customer's relationship proneness tendency. Otherwise, organisations may risk alienating their customers if they try to force a relationship while the customer does not want one, or vice versa (Ganesan 1994; Sheaves and Barnes 1996).

It may be tempting to categorise relationship proneness as a key construct of customer relationships. In the previous sections, it has been argued that a relationship can be merely based on a contractual agreement or perceived high switching costs. In such circumstances, some customers would continue their relationships regardless of the level of their relationship proneness with financial institutions. Therefore, relationship proneness is a key construct for specific types of relationships rather than all. Based on this argument, in this research customer relationship proneness is viewed as a concept which facilitates the development of relationship commitment between the parties.

In the relationship commitment literature, two related constructs have attracted research interest due to their roles in relationship commitment: (1) customer loyalty and (2) customer satisfaction.

Customer loyalty and relationship commitment

Commitment as an intention to continue the relationship in the future implies loyalty of both parties. As a related concept to commitment, customer loyalty is a widely documented construct with mixed definitions in the marketing literature. Some scholars tend to conceptualise loyalty merely as repeat purchasing behaviour, and commitment as to denote customers' attitudes concerning continuation of a relationship (Jacoby and Kyner 1973; Liljander and Strandvik 1995; de Wulf *et al.* 2001; Odekerken-Schröder *et al.* 2003). For these researchers, repeat buying and commitment have different foundations and underlying dynamics. Repeat buying can be based on convenience, price or other non-emotive factors. There is some evidence that it is entirely possible for customers to demonstrate repeated patronage and a high level of retention without having emotional attachment, but instead as a function of inertia or convenience, such as familiarity and the feeling of indifference with the choice (Bloemer and Kasper 1995). Contrary to loyal customers, committed customers go back to the same companies and brands because they feel something special towards them (Barnes 2003). Other marketing scholars, on the other hand, do not make a distinction between loyalty and commitment, and use the two constructs interchangeably (Bloemer and Kasper 1995; Oliver 1999; Reynolds and Beatty 1999; Caruana 2002; Shankar *et al.* 2003; Panther and Farquhar 2004). These scholars view loyalty as a function of customer commitment to (1) a store (Reynolds and Beatty 1999), (2) a relationship (Panther and Farquhar 2004) or (3) a brand which may be due to either customers' conscious choice or inertia (Bloemer and Kasper 1995). Shankar *et al.* (2003) explain loyalty as a customer's long term commitment to an organisation which is different from mere customer repeat purchasing behaviour. In comparison, Caruana (2002) and Oliver (1999) have incorporated both a behavioural and an attitudinal component in their interpretation of the loyalty concept.

Regardless of the view taken, loyalty is stated always to be present in a committed relationship (Dwyer *et al.* 1987; Liljander and Strandvik 1995); therefore it is used as an aspect to describe customers' relationship commitment toward organisations (Morgan and Hunt 1994; Wetzels *et al.* 1998; Garbarino and Johnson 1999). In a recent study in the context of banking, communication (i.e.,

helpful, clear and personalised delivery of information and advice), rather than trust, is found to have the highest impact on customer loyalty (Ball *et al.* 2004), highlighting the role of communication in relationship commitment.

There is a consensus in the literature that repurchase behaviour by itself is not sufficient for a committed relationship (Morgan and Hunt 1994; Oliver 1999; Iniesta and Sanchez 2003; Panther and Farquhar 2004). A relationship which is based on mere repeat patronage with low or no affection is argued to be spurious (Dick and Basu 1994; Liljander and Roos 2002; Panther and Farquhar 2004) and therefore offered to be relabelled as “passive acceptance” (Panther and Farquhar 2004).

Customer satisfaction and relationship commitment

Another construct related to relationship commitment and trust in relationship partner is customer satisfaction which is defined as “a consumer’s affective state resulting from an overall appraisal of his relationship with a retailer” (Odekerken-Schröder *et al.* 2003:182). Satisfaction, along with trust, is reported among key drivers of relationship commitment (Sheaves and Barnes 1996; Wetzels *et al.* 1998; Zineldin and Jonsson 2000; Patterson and Smith 2001; Bansal *et al.* 2004) impacting on behavioural outcome (Liljander and Strandvik 1995; Garbarino and Johnson 1999). It is noted that without experiencing a fair level of satisfaction it is difficult for customers to feel committed to their service providers (Sharma and Patterson 2000).

However, not all researchers agree on the powerful association between commitment and satisfaction. For example, Garbarino and Johnson (1999) have found that satisfaction is a significant antecedent for future intentions only for less relational customers. Similarly, Oliver (1999) interprets satisfaction as an unreliable precursor to loyalty while Liljander and Roos (2002) and Panther and Farquhar (2004) have observed that some customers stay with their service providers regardless of the low level of satisfaction. Marketing scholars provide explanations why satisfaction can, in some instances, fail to act as a powerful predictor of commitment. According to Sharma and Patterson (2000) and Panther and Farquhar (2004), the impact of dissatisfaction on relationship commitment is

weaker under conditions of perceived switching costs. Yen and Gwinner (2003) argue that the path from satisfaction to loyalty would lose its significance in an online setting due to the instant access to performance and price comparison websites. In short, the relationship marketing literature appears to treat satisfaction as a related concept to commitment. However, it is also accepted that this relation can be broken under specific circumstances.

In accordance with this review, customer loyalty and satisfaction are approached as sub-components of relationship commitment which is based on affective and continuance elements. Customer relationship proneness is proposed as a facilitator for affective commitment.

2.5.3 Buyer-Seller Bonds

Another critical element in the development of the customer relationship process is buyer–seller bonds which are defined as “exit barriers that tie the customer to the service provider and maintain the relationship” (Storbacka *et al.* 1994:25). Bonding is believed to be an important determinant of customer commitment to a relationship by creating a sense of connection, dependence or entrapment on the part of the customer (Stern 1997; Gwinner *et al.* 1998; Oliver 1999; Berry 2000; Zineldin and Jonsson 2000; O'Malley 2001). Furthermore, bonds promote feelings of closeness between relationship parties (Heide and John 1988). Various types of bonds have been identified in the literature with different impacts on relationships. Among these, classifications by Berry (2000) and Liljander and Strandvik (1995) have received particular attention.

Berry (2000) identifies three types of bonds as financial bonds, social bonds and structural bonds. Financial bonds rely primarily on pricing incentives to secure the customer's commitment, such as higher interest rates for longer duration or frequent-flier points. For this type of bond to be formed, price needs to be the key attraction to the customer (Bansal *et al.* 2004). A main disadvantage of financial bonds is that they can be easily imitated by competitors. When a competitor offers a better price or incentive, customers can switch their providers, and therefore the impact of financial bonds on relationships would be short term. Social bonds involve personalisation and customisation of the relationship, such as

communication with customers regularly through multiple means, referring to customers by name during transactions and providing continuity of service through the same representative. Social bonding is reported to drive customer commitment when competitive differences of the core product are not strong (Berry 2000), which prompts the customer to be more tolerant of a service failure (Crosby *et al.* 1990). Structural bonds are formed as a result of joint investment by both the seller and the buyer. These bonds offer value-added benefits that are difficult or expensive for customers to receive and that are not readily available elsewhere (Berry 2000).

Extending these bonds further, Liljander and Strandvik (1995) propose 10 different types of bonds: (1) legal, (2) economic, (3) technological, (4) geographical, (5) time, (6) knowledge, (7) social, (8) cultural, (9) ideological and (10) psychological bonds. The first five forms of bonds (legal, economic, technological, geographical and time bonds) are termed contextual bonds. They are argued to constitute effective exit barriers which can prevent the customer from switching provider, and are more likely to be perceived in a negative sense (Morgan and Hunt 1994; Liljander and Strandvik 1995) by making customers feel locked in (Bansal *et al.* 2004). For example, a legal contract between a customer and service provider constitutes a type of legal bond while a loyalty scheme such as air miles may represent an economic bond. When there are limited possibilities to purchase a service from other providers because of distance or lack of transportation then the existence of geographical bonds can be talked about. In such cases, costs of switching may drive customers to forego the opportunity of trying other suppliers, and instead continue their relationship with their current providers (Patterson and Smith 2001). Contextual bonds cannot be easily influenced by the customer, but can be observed and managed by the service firm (Liljander and Strandvik 1995).

On the other hand, the next five bonds (knowledge, social, cultural, ideological and psychological bonds) are termed perceptual bonds. They are directly connected with the customer's values and preferences and are more positive connotations (Liljander and Strandvik 1995). For example, a customer's relation to a bank may be strong because of the branch staff's knowledge about the

customer's business which facilitates the transactions, the customer may be inclined to prefer some service providers because of certain personal values such as following some ethical principles, or customers may identify themselves with a subculture and therefore relate themselves more strongly to certain companies or products made by certain countries. Perceptual bonds are difficult to measure or manage by the firm (Liljander and Strandvik 1995). They are reported to facilitate the formation of trust and commitment as relationships develop (Zineldin and Jonsson 2000).

Among perceptual bonds, social bonds have attracted considerable attention in the relationship marketing literature. As a means of social support (Sheaves and Barnes 1996) and indicator of relationship closeness (Nielson 1998), social bonding is associated with some degree of emotional attachment and of mutual liking between individuals (Szmigin *et al.* 2005). Social bonds are seen to be important in developing customer loyalty in particular when competitive differences are not strong (Crosby and Stephens 1987; Szmigin *et al.* 2005). A social bond can be a very effective exit barrier and can prevent the customer from breaking the relationship even when the customer could find better alternatives elsewhere (Zineldin and Jonsson 2000; Patterson and Smith 2001). Likewise, social bonds are likely to increase customers' tolerance to service failure (O'Malley 2001).

Moreover, social bonding is noted most likely to develop during face-to-face interactions (Czepiel 1990). The facilitating role of service encounters (which is a form of marketing communications as discussed in Chapter 4) in the development of social bonds has been the subject of various studies (e.g., Czepiel *et al.* 1985a; Czepiel 1990; Bendapudi and Berry 1997; Berry 2000; Ahmad 2005). In particular, customers' friendships with their service providers are reported to have a potential to form social bonds (Ahmad 2005). In addition to friendship between the customer and service provider, repeated exchanges which lead to positive judgments concerning the behaviour of the other parties and the service received are stated to be influential in developing social bonds (Szmigin *et al.* 2005). It can be inferred that, social bonding is related to the nature of communication between the partners.

Social bonding can have two main effects on relationships. Firstly, as in other buyer-seller bonds, it can increase customers' perceived dependence on the service provider. Secondly, social bonding can affect customers' trust in their service providers (Bendapudi and Berry 1997). Despite its importance in relationship development, it is found that social bonding lacks in many business exchanges (Szmigin *et al.* 2005).

A characteristic of buyer - seller bonds is that, regardless of being contextual or perceptual, bonds will compensate for lower levels of service quality compared to other service providers without the customer breaking the relationship (Liljander and Strandvik 1995). In the case of contextual bonds, customers are more likely to feel a hostage of the firm, whereas perceptual bonds are more likely to relate to emotional or psychological attachment to the firm.

Furthermore, it should be underlined that, although firms engage in bonding behaviour to create closer ties with their customers (Heide and John 1988), a variety of factors outside a company's control such as family members, reference groups and social norms may be influential on customers' bonding behaviour (Sheth and Parvatiyar 1995b).

Based on this review, it can be concluded that individuals maintain a relationship based on some contextual and perceptual bonds, which act as an exit barrier by creating a sense of emotional and psychological connection, dependence or entrapment on the part of the customer. The nature of customer relationships will be determined based on the type of such bonds between the buyer and seller.

2.5.4 Relationship Benefits

A common element in all relationship marketing strategies is an incentive given to the customer to continue the relationship with an organisation, which exceeds receiving tangible and financial aspects of transactions (Sheaves and Barnes 1996). The incentive may be in the form of extra service, price differentiation, or something else, but in each case the customer is given one or more reasons not to change providers (Berry 1983). In other words, a relationship is foreseen to develop between a customer and an organisation when there are benefits not

only to the company but also to the customer (Sheth and Parvatiyar 1995a; Grönroos 1996; Sheaves and Barnes 1996; Berry 2000).

Much of the published work expounds benefits of developing relationships with customers from firms' perspective (Gwinner *et al.* 1998; Yen and Gwinner 2003). The nature of such benefits from customers' perspective has not received much empirical investigation (Gwinner *et al.* 1998; Patterson and Ward 2000). Defined as "those benefits customers receive from long-term relationships above and beyond the core service performance" (Gwinner *et al.* 1998:102), the definition puts the customer in the centre of the relationship and views relationship benefits as supplemental to the mere exchange of goods and services.

As the definition underlines, relationship benefits should not be used to compensate for core service failures (Grönroos 1990). Customers fully expect to receive satisfactory delivery of the core service (Crosby and Stephens 1987). However, mere fault-free provision of the core service is unlikely to be sufficient to encourage customers to engage in relationships in the long term (Coulter and Ligas 2004). Customers should feel that they are offered some extras (i.e., going the extra mile) for their custom. Such benefits are reported to play a critical role in customer relationships (Patterson and Ward 2000) by reinforcing relationship commitment (Dwyer *et al.* 1987). Investigating the impact of relationship benefits in an online setting, Yen and Gwinner (2003) find that relationship benefits still play an important role in understanding customer commitment despite the notable differences between relationships developed in online and face-to-face environments.

In examining different forms of relationship benefits, Gwinner *et al.* (2003) discuss the importance of three main forms of relationship benefits from customers' perspective: confidence, social, and special treatment benefits. With regard to confidence benefits, risk reduction is stated to be a key outcome of relationships, and this is facilitated by creating customer trust and confidence in the provider. Hence, confidence benefits are associated with reduced risk and anxiety, faith in the trustworthiness of the service provider, and knowing what to expect, which are

particularly important dimensions of customer relationships (Grönroos 1994; Gwinner *et al.* 1998).

Social benefits include feelings of customer familiarity, personal recognition, friendship and social support, and may be driven by customer-to-customer interactions and friendships as well as customer-to-service employee interactions (Czepiel 1990; Sheaves and Barnes 1996; Gwinner *et al.* 1998; Price and Arnould 1999; Ford 2001; Patterson and Smith 2001).

Lastly, special treatment benefits or service augmentation, on the other hand, are about discount or price breaks, time savings, special additional services and preferential treatment that are provided only to regular customers. For service differentiation to occur, extras should be valued by customers and not readily available from competitors (Berry 1983).

Relationship benefits, on the whole, are noted to impact on customer relationships by reducing customers' uncertainty, thus increasing their sense of control, improving their self-esteem, and creating a sense of social connection between relationship partners (Sheaves and Barnes 1996). Therefore, it is suggested that in addition to emphasising service aspects such as performance quality, control, efficiency or convenience, customers should be informed about relationship aspects such as confidence, special treatment and/or social benefits offered by organisations (Yen and Gwinner 2003).

There is some evidence that the importance of relationship benefits varies depending on a service setting (e.g., Gwinner *et al.* 1998; Patterson and Ward 2000; Yen and Gwinner 2003). For example, Gwinner *et al.* (2003) demonstrate that social and special treatment benefits differ across service categories. In particular, these types of benefits are rated as more important in services characterised by high contact between the employee and customer. Such benefits are viewed as the least important for moderate contact and standardised service types. Nevertheless, confidence benefits are found to be the most important benefits regardless of the service type, implying that such benefits are critical outcomes of long term relationships.

In comparison with this perspective, Morgan and Hunt (1994) argue that for partners in a relationship to feel a sense of commitment towards each other, exchanges between them should go beyond mere economic expectations, and involve some sort of emotions. However, Morgan and Hunt (1994) appear to restrict commitment to “affective commitment” excluding the continuance type. In the current research, the approach taken is that commitment constitutes both affective and continuance aspects. Therefore, a categorisation of relationship benefits as identified by Gwinner *et al.* (1998), including confidence, social and special treatment aspects, is approached as a more comprehensive representation of customer relationships. In short, it is proposed that customers are likely to perceive different types of benefits from their relationships, and the nature of such benefits would play a significant role in the type of relationship between customers and their organisations.

2.6 CONCLUSION

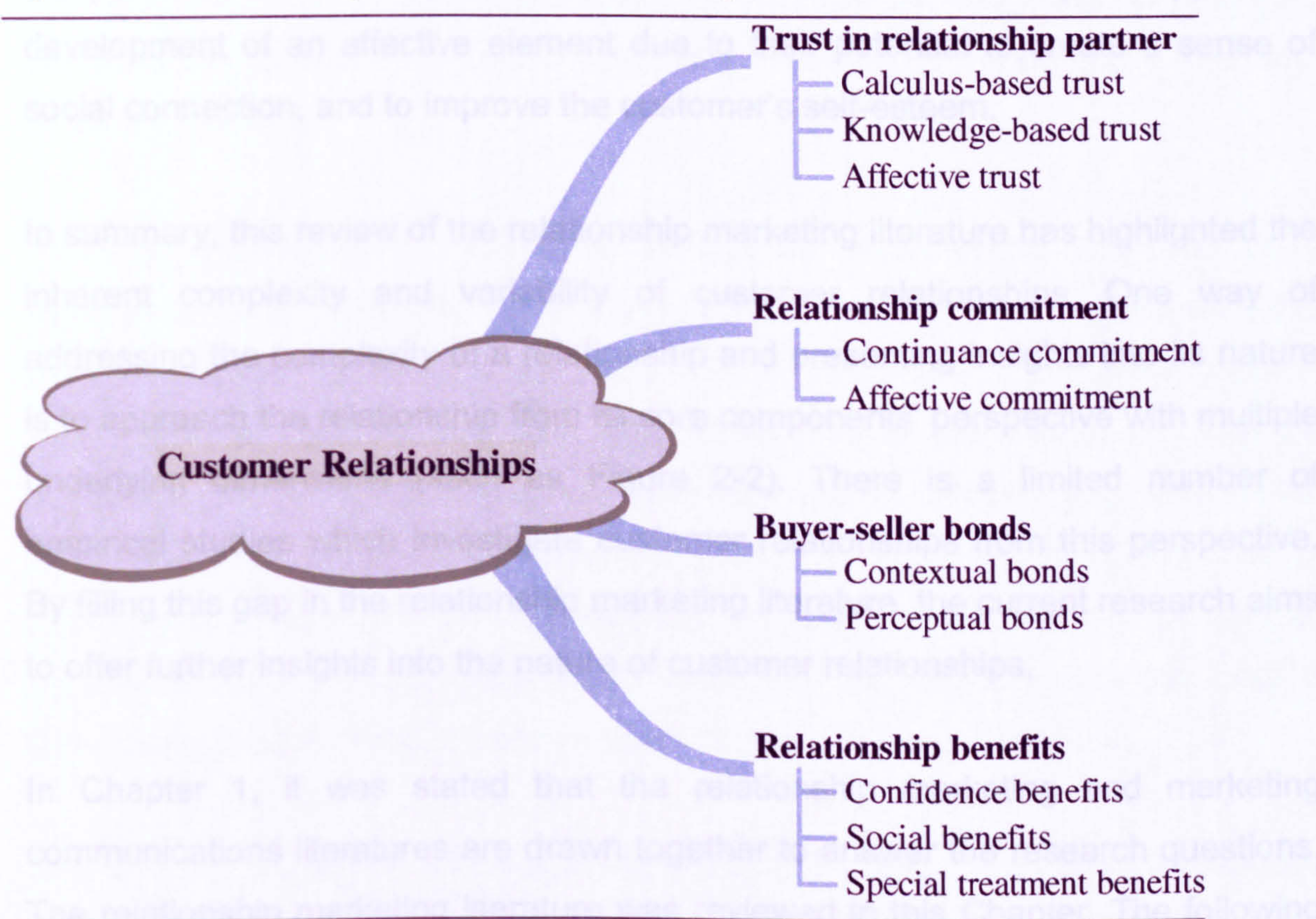
As discussed in this Chapter, there is a consensus among marketing scholars that a mere transactional approach to customer interactions is inadequate in the currently competitive environment. There is a strong orientation towards a relational approach in a number of research domains within marketing, in particular services and industrial marketing.

Despite the increasing recognition of relationship marketing as a new influential marketing thought, some fundamental questions are still unanswered such as what a relationship is, what the fundamental components of a relationship are, or what types of relationships can be established in a business setting (Eiriz and Wilson 2006). This may be partly due to different approaches to the relationship marketing concept taken by different marketing traditions. In addition, the concept is still in its development stage, which contributes to the lack of consensus on what the term might mean.

The relationship marketing literature was reviewed with the purpose of identifying fundamental components of customer relationships. Multiple interactions between a buyer and seller lie at the heart of a relationship. For a number of interactions to

be considered a relationship, they should encompass a number of characteristics. Four particular characteristics were found to be highlighted in the literature as the building blocks of customer relationships: customer trust in relationship partner, relationship commitment, buyer-seller bonds and relationship benefits. It needs to be noted that while other components might have been included in this research, these four components have strong support from the literature as being central to relationship formation and development. Moreover, associations between the components are not illustrated in Figure 2-2, as this is not the focus of the current research.

Figure 2-2 Fundamental components of customer relationships



In order to present insights into the nature of a relationship and its type, it is crucial that the underlying dimensions of fundamental components are identified in the first place. Each relationship component should be approached from a multi-dimensional perspective as illustrated in Figure 2-2. The mere existence of trust or relationship commitment, for example, does not tell much apart from implying that a type of relationship exists. Only by knowing the underlying dimensions of these components can one reach a better understanding of the nature of the relationship. For example, the type of trust (as calculus-based,

knowledge-based and affective trust) underlies the level of closeness between relationship partners. The type of relationship commitment determines whether it is a desire-based (affective) or cost-based (continuance) relationship. Similarly, different types of bonds have different impacts on relationships: contextual bonds are likely to make the customer feel a hostage of a given firm, while perceptual bonds are more likely to relate to emotional or psychological attachment. Moreover, the nature of relationship is affected by the type of relationship benefits, which supplement the mere exchange of goods and services. Confidence benefits facilitate the development of all relationship types by reducing uncertainty and increasing the customer's sense of control. In comparison, social and special treatment benefits are more likely to support the development of an affective element due to their potential to create a sense of social connection, and to improve the customer's self-esteem.

In summary, this review of the relationship marketing literature has highlighted the inherent complexity and variability of customer relationships. One way of addressing the complexity of a relationship and presenting insights into its nature is to approach the relationship from its core components' perspective with multiple underlying dimensions (such as Figure 2-2). There is a limited number of empirical studies which investigate customer relationships from this perspective. By filling this gap in the relationship marketing literature, the current research aims to offer further insights into the nature of customer relationships.

In Chapter 1, it was stated that the relationship marketing and marketing communications literatures are drawn together to answer the research questions. The relationship marketing literature was reviewed in this Chapter. The following two Chapters focus on the marketing communications literature.

CHAPTER 3

EXPLORING THE IMPACT OF PLANNED MARKETING COMMUNICATIONS ON CUSTOMER RELATIONSHIPS:

A Perspective from the Literature

3.1 INTRODUCTION

This research investigates the impact of marketing communications on customer relationships. To this end, two key communication channels are concentrated on: planned marketing communications and service encounters. Planned marketing communications are reviewed in this chapter while service encounters is the focus of the next chapter.

Planned marketing communications set out an organisation's promises to its customers. Such messages are, to a high extent, predetermined which means that they are planned by the marketer to persuade customers in a certain direction. This nature of planned marketing communications is believed to result in the communication to be perceived as inherently manipulative (Wang and Nelson 2006) and therefore the least trustworthy (Duncan and Moriarty 1997). Various media and tools of the promotional mix are used in the delivery of planned messages. Among these, three widely used corporate practices are the focus of this research: advertising, corporate sponsorship and direct marketing.

With the aim of gaining a rich understanding of the impact of planned marketing communications on customer relationships, firstly, the communication concept is focused on (Section 3.2). It is investigated what kind of theoretical and empirical evidence exists on the communication aspect of customer relationships. Then, the three key communication channels are focused: advertising (Section 3.3), corporate sponsorship (Section 3.4) and direct marketing (Section 3.5). For each of these channels, the primary role of the marketing communication in customer relationships is explored.

3.2 AN OVERVIEW OF COMMUNICATION AND CUSTOMER RELATIONSHIPS

In their pioneering work, Mohr and Nevin (1990:36) view communication as “the glue that holds together a channel of distribution”. Adding to this, Andersen (2001) reports that communication enables building an environment where a relationship can be formed and developed. These statements, albeit influential, do not identify core characteristics of communication. Reviewing the marketing communications literature in order to identify the key aspects of communication, one aspect appears to have received particular attention: one-way versus two-way information transfer. From a relationship marketing perspective, communication is believed to play a central role in relationship development due to its potential to establish a dialogue between relationship partners (Andersen 2001; Keller 2001). This statement implies a two-way information transfer between the parties. However, in traditional marketing communications definitions, communication is described as a process which information is transferred from a sender to a recipient. For example, Keller (2001) identifies marketing communications as the means by which firms intend to inform, persuade and remind customers directly or indirectly about the firm or products on offer. Other researchers, on the other hand, criticise this view as being obsolete (Andersen 2001). It is noted that the role of communication goes beyond persuasion to informing, listening and answering, which requires an interaction between the parties and the adoption of two-way communication forms (Duncan and Moriarty 1998). Such an interactive dialogue is believed to be crucial in the trust-building process (Andersen 2001).

The potential of marketing communications to create a dialogue between the relationship parties is an area particularly focused by integrated marketing communications (IMC hereafter) researchers. IMC research, which evolved during the 1990s, takes a holistic approach to communication (Moriarty 1994). IMC involves coordinating all forms of marketing communications to deliver consistent messages (Moriarty 1994; Herrington *et al.* 1996), and help to initiate a two-way dialogue between the parties (Moriarty 1994; Keller 2001; Fill 2005). It is argued that the consistency of communication messages, which enables organisations to speak with “one voice” (Andersen 2001), facilitates a dialogue and formation of a

relationship (Moriarty 1994; Andersen 2001). It has been demonstrated that the effectiveness of marketing communications such as advertising, sales promotion, direct mail and public relations is enhanced when the consistency of communication messages is achieved (Low 2000). However, in current practice customers are “bombarded with a plethora of marketing activities... with little evidence regarding the effectiveness of these marketing tactics” (Peng and Wang 2006:26).

There are indications that communication has a potential to influence the development of relationships through their direct impact on the fundamental components of customer relationships, such as trust and commitment (e.g., Anderson and Narus 1990; Mohr and Nevin 1990). However, this area has attracted limited academic research (Andersen 2001; Tapp 2001; Odekerken-Schröder *et al.* 2003), most of which are in a descriptive or proposition-testing nature (Andersen 2001). Of these, a study by Andersen (2001) is worth mentioning due to its contribution to the communication aspect of customer relationships.

Criticising that the marketing communications literature fails to take into consideration the dynamic nature of relationships, Andersen (2001) approaches relationship development as a linear process. This perspective requires the utilisation of a broad range of communication practices since the communication needs are likely to change during the relationship development process (Mohr and Nevin 1990; Fletcher and Peters 1997; Andersen 2001). In this respect, one-way marketing communication practices may offer benefits as much as two-way marketing communications depending on the phase of the ongoing relationship. Based on this reasoning, Andersen (2001) has developed a “relationship communication” model. Approaching relationship development process from three phases (as pre-relationship phase, negotiation phase, and relationship development phase), Andersen (2001) argues that in the pre-relationship phase awareness-building should be the key aim of communication messages. Such messages are mostly in the form of one-way communication practices such as advertising. In the negotiation phase, communication between the organisation and the customer should be dialogue-oriented, mostly in the form of interactions

between the parties. Finally, in the phase of relationship development, communication should aim to evoke favourable affective responses between the parties. The study by Andersen (2001), by far, is one of the most informative studies regarding the research investigation. Three issues need to be raised about this model. First, Andersen approaches relationship development as a linear process. In this thesis, however, a single linear relationship model is viewed as being too limited to manage increasingly more complicated and multi-faceted business relationships. This view is supported by previous studies (Liljander and Strandvik 1995; Barnes 1997; Bendapudi and Berry 1997; Laing and Lian 2005). Second, Andersen proposes that the emphasis should be given to specific communication activities (such as service encounters, advertising and direct marketing) depending on the phase of the relationship being transactional or affective. From this argument it could be inferred that the potential of communication for influencing relationship development will depend on the nature of the relationship between the parties, which provides a basis for the current research. Third, albeit presenting an important contribution to the marketing communications literature, Andersen's study is a conceptual model and needs empirical investigation.

In short, there is a consistency in the marketing communications and relationship marketing literature that communication is a fundamental aspect of relationship development. Moreover, it is acknowledged that the dynamic nature of customer relationships requires the use of a broad range of marketing communications activities in the form of both one-way and two-way information transfer. Nevertheless, there appears to be no empirical studies which investigate the communication aspect of customer relationships in a systematic and robust way.

3.3 ADVERTISING

The purpose of advertising is argued to influence customers by informing or reminding them of a brand, or alternatively to persuade customers to differentiate a product or organisation from the competing ones (Fill 2005). It is indicated that advertising has long kept its position as a traditional means of planned marketing communications due to possessing a high level of management control (Fill 2005)

and being considered as a cost-effective method to communicate with large audiences (Belch and Belch 2001).

In addition to its ability to reach large audiences, the key strengths of advertising are reported to create brand awareness, change attitudes and/or influence consumer behaviour (Belch and Belch 2001; Fill 2005; Wang and Nelson 2006). While there is a great deal of research on these key strengths of advertising (e.g., Jones and Blair 1996), few studies have focussed on the role of advertising in influencing customer relationships, yet with conflicting findings. One group reports that the effectiveness of advertising is predominantly in the short term (Jones and Blair 1996) particularly because of customer cynicism towards organisations' genuine intentions to develop relationships with customers (O'Malley and Prothero 2004). Other researchers argue that promotional activities have a potential to create and nurture customer relationships as long as the right rhetorical tactics are used (Stern 1997). In this regard, the effectiveness of advertising can be improved by promoting corporate related characteristics rather than product attributes (Davies 1996), especially in sectors such as financial services where products are mainly standardised and thus difficult to differentiate (Balmer and Stotvig 1997). It is also stressed that for an effective advertising it needs to be combined with other marketing tools such as direct marketing or sponsorships (Hoek *et al.* 2000).

In the following sections, “corporate/brand image” and “relationship advertising” concepts are concentrated on due to their likely impact on customer relationships.

3.3.1 Corporate/Brand Image

Corporate image is defined as “the overall impressions, experiences, beliefs, feelings and knowledge of a company held by an individual or a group of people” (Balmer and Stotvig 1997:170). How to establish a positive image through advertising has received high interest in the marketing communications literature (Reynolds and Gutman 1984; Dowling 1986; Witcher *et al.* 1991; Balmer and Stotvig 1997; Padgett and Allen 1997; Gray and Balmer 1998; Abratt and Mofokeng 2001; Hatch and Schultz 2003). Among these, Witcher *et al.* (1991:19)

assert that much of advertising works through image associations: “the impression left with the target audience is a feeling of what a product is about, rather than what it will do”.

Questioning how a brand or corporate image can reflect on customer relationships, there is some evidence that corporate image can be used as a tool to reduce customers' perceived risk particularly in the context of services (George *et al.* 1985). Typical characteristics of services (as discussed in Chapter 2) make it difficult for customers to evaluate services; therefore image can be used to overcome the complexity of service evaluation. In Chapter 2, it was discussed that risk reduction is related to a trusting relationship. Based on this, it can be stated that advertising, when it aims to promote a sustainable corporate or brand image, may enhance the relationship development through its likely impact on the trust component. Support to this statement comes from Peng and Wang (2006) who claim that a strong brand image increases customers' trust especially in the case of intangible products.

3.3.2 Relationship Advertising

One particular study (Stern 1997) sheds some light into how advertising could be used to facilitate relationship development. Focusing on the “relationship advertising” expression, Stern (1997:8) explains that the objective of relationship advertising is “to transfer mostly one-way impersonal mass communication into representations of personal discourse”. In other words, the potential of advertising in nurturing relationship is related to its capacity to stimulate thoughts, feelings and actions of the message receiver. To this end, advertising should aim at projecting the advertiser as a sympathetic, understanding, responsive and caring listener. Advertising that is customer-oriented and presents a genuine concern for the customer is stated to be indicators of a caring attitude. Additionally, Stern (1997) argues that the style of the language presented (such as using the first person and an active voice) facilitates the establishment of a connectedness between the message sender and the receiver.

To conclude, there is a lack of theoretical and empirical research investigating the impact of advertising on the fundamental components of relationships. Advertising research is still centred on a few themes, such as how to increase sales, change customer attitudes and create a brand/corporate image. This is why most arguments in this section were based on assertions rather than hard evidence. If the competition will intensify in the future while customer retention gains more importance, it is vital for organisations to know how effectively corporate funds are used in this regard. Customers can also benefit from this knowledge since there is some evidence that advertising activities currently are overwhelming, confusing, undifferentiated and irrelevant to the customers' needs (Wilkinson and Balmer 1996; O'Loughlin and Szmigin 2005).

3.4 CORPORATE SPONSORSHIP

Another popular marketing communications practice is corporate sponsorship. In this section, it is investigated how, if any, corporate sponsorship can be used to influence relationships between organisations and their customers, after an overview of sponsorship practices.

3.4.1 Overview of Sponsorship Practices

According to Witcher *et al.* (1991), corporate sponsorship is an investment by an organisation in an event, activity, group or individual, which is not directly the part of the core business but commercial benefits are expected through this association.

It is documented that sponsorship is an increasingly visible part of many organisations' promotional activities (Hoek *et al.* 1997). This can be observed by either the investment value or the number of events sponsored (Witcher *et al.* 1991; Javalgi *et al.* 1994). Long associated with events such as the World Cup and the Olympic Games, sponsorship is progressively taking on a more global perspective. Maybe because of having its roots from sporting events, professional sport is found to be the major area of corporate sponsorship (Meenaghan 1991; Witcher *et al.* 1991; Shanklin and Kuzma 1992). Whereas, less prestigious events

fail to attract much corporate support (Shanklin and Kuzma 1992). This may be likely because large national or global sporting occasions attract intensive media coverage (Witcher *et al.* 1991). It could also be that, according to Cornwell and Maignan (1998), this type of market-driven sponsorship has replaced philanthropic sponsorship, and sponsorship being approached simply as business-related behaviour. Apart from sporting events, arts, community civic functions and cause-related activities are the next popular events for corporate support (Shanklin and Kuzma 1992). At the local level, the most commonly sponsored events are art events. The sponsorship of local causes and charities, however, has been carried out by relatively few organisations (Witcher *et al.* 1991).

Among other marketing communications activities, sponsorship is associated mostly with advertising and public relations. There is a debate in the literature about whether sponsorship is a form of advertising or public relations. Some researchers note that advertising and sponsorship are complementary to one another while others argue that advertising and sponsorship work differently (Hoek *et al.* 1997). For example, Witcher *et al.* (1991) state that sponsorship is simply another form of advertising with the exception that in sponsorship payment is made to the organisers of the sponsored event, and not to the promoting media. On the other hand, arguing about the differences between advertising and sponsorship, Meenaghan (1991) reports that advertising and sponsorship are different in two main aspects: the cost (advertising is considerably more expensive) and the control (the sponsoring organisation has much less control of the coverage). Likewise, Hastings (1984) discusses that sponsorship differs from advertising in terms of creating awareness of the organisation and/or its products, and the image projection. In advertising, these may be communicated through simplified and direct methods whereas in sponsorship more complex tools are required. Moreover, the audience in advertising can be defined as viewer and non-viewers, while in sponsorship active participants, spectators and media followers constitute the audience base (Hastings 1984). However, in practice managers were found to use advertising and sponsorship to achieve similar goals, in particular goals relating to corporate/brand awareness and image building (Hoek *et al.* 1997).

In relation to sponsorship as a form of public relations, the main objective of public relations is to administer an organisation as a worthy corporate citizen especially in communities in which the organisation operates (Witcher *et al.* 1991). Advocates of sponsorship as a form of public relations stress the capacity of sponsorship to fulfil a public relations type of function (Meenaghan 1991). In line with this, a survey study by Hastings (1984) presents that sponsorship is not yet a fully integrated part of the marketing mix, and that most sponsorship activities remain firmly the responsibility of public relations.

3.4.2 Corporate Sponsorship and Customer Relationships

In spite of its popularity as a marketing communications practice (Dolphin 2003), sponsorship has received little academic interest which goes back to only 1980s (Cornwell and Maignan 1998), and even less in the context of customer relationships. Despite an acceptance about the important role of sponsorship on customer relationships (Cornwell and Maignan 1998; Olkkonen 2001; Rifon *et al.* 2004), there is a lack of empirical support (Cornwell and Maignan 1998). In addition, the studies which attempt to integrate relationship marketing and sponsorship mainly look at the relationship between the sponsoring organisation and the sponsored event or cause (e.g., Olkkonen 2001; Farrelly *et al.* 2003) rather than the relationship between the sponsoring organisation and its customers.

A closer investigation of the corporate sponsorship literature implies that corporate sponsorship has a potential to influence the development of customer relationships. Key strengths of corporate sponsorship practices and motives of the sponsoring organisation give some indications in this regard, which are discussed in turn.

(i) Key strengths of corporate sponsorship

Drawing on the marketing communications literature, key strengths of corporate sponsorships are identified as (1) enhancement of corporate/brand image (Shanklin and Kuzma 1992; Javalgi *et al.* 1994; Hoek *et al.* 1997; Cornwell and Maignan 1998), (2) establishing favourable publicity for the corporation or its

brands (Hoek *et al.* 1997; Olkkonen 2001) and (3) changing customer purchasing behaviour (Witcher *et al.* 1991; Rifon *et al.* 2004). No research has yet identified “enhancing customer relationships” a specific strength of sponsorship. This is surprising, because the identified three strengths of corporate sponsorship and the fundamental components of customer relationships (as discussed in Chapter 2) are related. For example, (1) buying behaviour is an indicator of customer loyalty which is part of the relationship commitment component, and (2) establishing favourable publicity could be argued likely to create some perceptual bonds between organisations and their customers. Moreover, a strong corporate image could help to reduce the perceived risk and therefore may promote trust (as discussed in Section 3.3). The role of sponsorship in promoting corporate or brand image has received particular attention from marketing scholars (e.g., Hastings 1984; Witcher *et al.* 1991; Shanklin and Kuzma 1992; Javalgi *et al.* 1994; Cornwell and Maignan 1998), thereby leveraging competitive advantage (Dolphin 2003). There is some empirical evidence that sponsorship can enhance corporate image if the company already has a good image before the sponsorship. Likewise, corporate sponsorship might worsen a negative image if customers hold prior negative perceptions (Javalgi *et al.* 1994). So, it could be interpreted that sponsorship has a potential to influence corporate or brand image, which could play a role in influencing the development of relationships between organisations and their customers.

(ii) Motives of the sponsoring organisation

One area emerging as a considerable aspect of corporate sponsorship as viewed by customers is the motive of sponsoring organisation. Rifon *et al.* (2004) claim that becoming more sincere and socially responsible in sponsorship activities can improve customer relationships. Their findings suggest that customer assessments of sponsor motive play a role in customers' responses to the sponsorship.

In terms of corporate social responsibility, the concept reflects an organisation's status and activities with respect to its perceived societal obligations such as environmental friendliness, commitment to diversity, community involvement,

sponsorship of cultural activities or corporate philanthropy (Brown and Dacin 1997). A longitudinal study of social responsibility themes in bank advertising has found that the communication of social responsibility in television advertising increased by seven percent from 1992 to 2002 in the context of the United States of America (Peterson and Hermans 2004). Additionally, Brown and Dacin (1997) indicate that corporate social responsibility is particularly effective in customers' responses to new products. It is also presented that when customers know about a company's corporate social responsibility associations this positively effects customers' evaluations of organisations (Brown and Dacin 1997). In a similar manner, Sen and Bhattacharya (2001) argue that a company's corporate social responsibility actions have a potential to establish a bond between firms and their customers.

However, customers' responses to corporate social responsibility actions are context specific. Customers are found to be more sensitive to negative corporate social responsibility activities than positive ones (Sen and Bhattacharya 2001). All customers react to negative corporate social responsibility information whereas only those most supportive of the corporate social responsibility issues react to the positive information. In comparison, other studies suggest that corporate sponsorship would have a novelty effect at the initial stage, yet the effect may diminish over time (Javalgi *et al.* 1994).

It needs to be noted that the potential of sponsorship as an effective marketing communication practice appears to be limited if it is not combined with other communication activities. It is reported that, to realise its full potential, sponsorship must be integrated in overall communication programmes by leveraging the sponsorship with other forms of marketing activities (Thwaites 1995; Cornwell and Maignan 1998). This is because customers' perceptions of a company are based on information from a variety of sources such as face-to-face contacts, interactions with customer services departments, experiences in using its products, advertising, publicity, and even employment (Javalgi *et al.* 1994). Therefore, the success of corporate sponsorship depends on the level of coordination between the sponsorship and other marketing communications activities (Hastings 1984; Erdogan and Kitchen 1998).

To summarise, it appears that sponsorship can play a contributory role in the enhancement of customer relationships particularly in situations where the sponsorship is in parallel with societal obligations as perceived by customers. Also, the nature of the sponsorship motive may influence customer relationships. With no doubt, sponsorship is a business transaction (Dolphin 2003). However, for a facilitating role, it is suggested that when choosing an event or cause to sponsor, organisations should go beyond mere financial considerations. These arguments, albeit valuable, stay conceptual.

3.5 DIRECT MARKETING

Direct marketing is among the most popularly researched marketing communications activities despite its relatively short history. Defined as “a strategy used to create and sustain a personal and intermediary-free dialogue with customers... and stakeholders” (Fill 2005:736), the term direct marketing was first used in the 1970s. In the UK, at that time, direct marketing represented a relatively small part of marketing activities, which was dominantly through the medium of direct mail (Evans *et al.* 1996). This is why the roots of direct marketing is stated to lie in the direct mail sector (Belch and Belch 2001; Tapp 2001). Today direct marketing has widened its scope to encompass direct mail, telemarketing, direct response advertising, text messaging and leaflet distribution (Evans *et al.* 1995). Primarily, direct marketing is concerned with the management of customer behaviour, and is used to complement the strengths and weaknesses of other marketing communications (Fill 2005).

3.5.1 Direct Marketing and Customer Relationships

There is mixed evidence in the literature in relation to the role of direct marketing in influencing customer relationships. One group of researchers supports a view that direct marketing, in theory, has a potential to promote customer relationships (e.g., Evans *et al.* 1996; O'Malley *et al.* 1997; Mitchell 2003). Based on the effective utilisation of customer information, direct marketing can be used to facilitate a dialogue (which is about two-way information transfer) and to develop customer satisfaction and trust when customers experience and appreciate the

personal attention they appear to be receiving. Direct marketing can build closer bonds with customers through constructing a dialogue, and hence contribute to the development of customer relationships (Patterson and O'Malley 2000). Once trust is established between the partners, customers will be less likely to be concerned about issues regarding to privacy invasions (Mitchell 2003). Organisations can show their commitment to relationships through the accurate use of customer data, respecting individual privacy, and engaging in a dialogue of which the nature evolves through the lifetime of the relationship (O'Malley *et al.* 1997). Additionally, existing, rather than new, organisations appear more likely to influence customer relationships. Customers are found to be more positive when being approached by a company they already do business with (Wang and Petrison 1993). In comparison, O'Malley *et al.* (1997) demonstrate that customers are more sensitive to be targeted inaccurately by companies they are conducting a business with, highlighting the importance of the accurate use of customer data in an already established relationship.

Another group of researchers reports that the potential of direct marketing in enhancing customer relationships is arguable since there is limited empirical evidence to support such claims. In particular, Tapp (2001) reports that direct marketing has limited power in achieving customer loyalty. According to Ridgway (2000) and Farquhar (2004), this may be because in direct marketing practices cross selling and customer acquisition are heavily emphasised, with relatively few companies using direct marketing as part of a structured customer retention programme. Similarly, Debling *et al.* (2000) have found little support for using direct mail primarily to build brand relationships. Their study participants indicated a number of reasons for this finding, ranging from "the perceived unpopularity of direct mail practices" to "the limited potential of direct mail to achieve emotion, impact, humour and three-dimensionality particularly in comparison with the television". Furthermore, telemarketing is argued to be problematic in terms of establishing relationships. Its limited access to interact with the same member of staff is viewed as a significant obstacle especially for ongoing interactions (Mitchell 2003). There is also some discussion that (1) when customers feel that their privacy is being violated, (2) they have less control over the use and dissemination of their data, and (3) their data are used inaccurately, the likely outcome will be a

reduction of trust, relationship commitment and unwillingness to participate in the relationship (O'Malley *et al.* 1997).

From these two opposing debates, it appears that direct marketing, by definition, has a potential to facilitate customer relationships. After all, direct marketing is a more personal and intermediary-free type of communication which is based on the use of customer data in contrast to mass communication. Nevertheless, this potential seems to be under-utilised fundamentally due to the way direct marketing is practiced by organisations, which requires a deeper insight into customers' evaluations of direct marketing practices.

3.5.2 Customers' Evaluations of Direct Marketing Practices

From customers' perspective, four major factors are identified considerably impacting on customers' evaluations of direct marketing practices as (i) customer privacy, (ii) relevance and level of targeting, and (iii) communication channels.

(i) Customer privacy

Customer privacy has received a great deal of attention in the marketing literature (e.g., Wang and Petrison 1993; Evans *et al.* 1995; Campbell 1997; Milne and Rohm 2000; Patterson and O'Malley 2000; Phelps *et al.* 2000; Page and Luding 2003; O'Malley and Prothero 2004; Trappey III and Woodside 2005). As already stated, the success of direct marketing is closely related to the acquisition and use of personal information. However, such practices constitute major concerns to customers due to their potential to violate customer privacy (Wang and Petrison 1993). Customer privacy can be in the form of abusing physical and/or information privacy. Physical privacy relates to the volume of communication received by customers while information privacy refers to the ability of individuals to control the extent of information about them being communicated to third parties (O'Malley and Prothero 2004). Customers have most concerns on unauthorised access to their personal information as well as secondary use of their data (Wang and Petrison 1993; Campbell 1997; O'Malley and Prothero 2004). Customers, at the same time, appear to have different thresholds of customer privacy (Patterson and O'Malley 2000), which depend on the type of information communicated,

reputation of the organisation collecting the data, relevance of the message and customer characteristics (Wang and Petrisson 1993; Campbell 1997). Furthermore, customers interpret companies violating their privacy through direct marketing practices to be acting unethically (Evans *et al.* 1995; Mitchell 2003; Page and Luding 2003).

It is suggested that an effective way to respond to customer privacy concerns is by giving customers more control on the use and dissemination of their personal information (Phelps *et al.* 2000; Evans *et al.* 2001). The practice of checking “opt-in” or “opt-out” boxes during data acquisition (for example, while applying/subscribing for a new service) is a mechanism of increasing customer control, and therefore reducing information privacy concerns. Prior research has revealed that customers desire more control over what information they receive, the quantity and what happens to their personal details (Phelps *et al.* 2000; Evans *et al.* 2001). Contrary to sector concerns, only a small fraction of customers actually opts out when they are given the opportunity. Yet, it is important that the opportunity exists since this will alleviate customers’ privacy concerns (Patterson and O’Malley 2000), reduce perceived risk and increase customers’ attention to the communication (Phelps *et al.* 2000).

In the previous section it is argued that respecting individual privacy is one way that organisations can show their commitment to a relationship (O’Malley *et al.* 1997), which would then facilitate the maintenance of the relationship between the parties. In this respect, it could be inferred that violations of customer privacy will not only be considered as unethical (Evans *et al.* 1995; Mitchell 2003; Page and Luding 2003), but can also damage the ongoing nature of relationships.

(ii) Relevance and level of targeting

Defined as “an interest in or a need for the advertised goods or services” (Phelps *et al.* 2000:39), relevance is another major concern impacting on customers’ evaluations of direct marketing practices. This is a particular concern for financial services providers (Evans *et al.* 2001; Page and Luding 2003). Despite advances in information technology and the proliferation of customer databases, a large

proportion of direct marketing communications continues to be irrelevant to customer needs and wants (Patterson and O'Malley 2000). It is mainly the relevance factor that causes direct marketing being criticised to be “undifferentiated mass mailings” (Wang and Petrison 1993), and being viewed as “junk mail” (Korgaonkar *et al.* 1997; Patterson and O'Malley 2000). The term “junk” is the most commonly used term in the literature while referring to direct marketing (e.g., Wang and Petrison 1993; Evans *et al.* 1996; Korgaonkar *et al.* 1997; Mitchell 2000; Patterson and O'Malley 2000; Phelps *et al.* 2000). This is interesting in the light that direct marketing is viewed as a better alternative to traditional advertising due to its capacity for improved targeting (de Wulf *et al.* 2001; Mitchell 2003). Addressing concerns regarding to relevance is highly critical in terms of customers' evaluations of direct marketing practices. At present, customers perceive that there is a lack of true understanding of their personal information, and this aggravates their privacy concerns and cynicism towards direct marketing (Evans *et al.* 2001). Increasing the relevance of direct marketing will help alleviate customer privacy concerns (Phelps *et al.* 2000) and result in a more cost effective targeting (Evans *et al.* 1996).

Perceived excessive targeting, on the other hand, is identified as a major problem of direct marketing practices on the whole (Evans *et al.* 1996). Excessive targeting is stated to have a potential to threaten the development of customer relationships (O'Malley and Prothero 2004) as well as contributing to the customer privacy concerns (Wang and Petrison 1993).

Relevance and level of targeting are clear indicators of the accurate use of customer information. When the personal information is used accurately, it is believed to facilitate a dialogue between the parties, which could then help to build closer bonds (O'Malley *et al.* 1997; Patterson and O'Malley 2000). When organisations fail to utilise customer data effectively, and treat direct marketing simply as another type of mass communication, they would be threatening the development of relationships as the following quote supports:

The frustration experienced by consumers in providing personal information to firms (and thus signalling relational intentions) when this information appears to be disregarded and/or unrelated to the product/service offerings made by the firm is a potential threat to relationship development which must not be overlooked or treated lightly. (Fletcher and Peters 1997:537)

(iii) Communication channels

Direct mail is the most commonly used direct marketing practice (Jonker *et al.* 2006), and is perceived as relatively less intrusive by customers (Mitchell 2003). Unsolicited telephone contact and e-mail are found to be more intrusive communication channels in comparison with the post (Day 2000; Milne and Rohm 2000; Mitchell 2003; Page and Luding 2003). Similar to views presented by Phelps *et al.* (2000), Patterson and O'Malley (2000) emphasise that the central issue for customers is not the communication channel per se, but the extent of perceived control on the use of that channel. Customers are likely to be accepting the use of communication media when they have a control on the use of the channel. Page and Luding (2003) report a marked distinction between negative attitudes towards financial institutions using mail, telephone and e-mail to communicate with customers, and positive attitudes towards using mail, telephone and e-mail to purchase goods and services. It might be that this distinction is due to difference between being exposed to unsolicited communication and the use of these channels by customers as a personal choice. In short, it can be stated that telephone and email to some extent are particularly distressful delivery channels regarding to unsolicited direct marketing communications.

The popular use of telemarketing as a form of direct marketing may be another hindrance behind the development of customer relationships since telemarketing practices are reported to be a significant obstacle for the continuity of interactions between the relationship partners (Mitchell 2003).

Examining how to overcome such customer concerns on direct marketing and to improve the effectiveness of direct marketing, which would then lead to a better utilisation of the potential of direct marketing in enhancing customer relationships,

it is suggested that direct marketing should adopt more sophisticated ways of interacting with customers (Evans *et al.* 1996; Mitchell 2003). Organisations should implement better targeting strategies that diminish customer concerns regarding issues such as customer privacy, relevance and excessive targeting (Patterson and O'Malley 2000). In addition, when direct marketing is used as a form of follow-up for customer-initiated inquiries as opposed to being completely unsolicited then its effectiveness will be improved (Page and Luding 2003).

3.6 CONCLUSION

There is no doubt on the key role of communication in enhancing as well as threatening the development of relationships between organisations and their customers (e.g., Anderson and Narus 1990; Mohr and Nevin 1990; Keller 2001). However, this is a relatively under-explored area (Odekerken-Schröder *et al.* 2003) with limited empirical support (Andersen 2001). To the extent that the communication creates a two-way information transfer and leads to an interactive dialogue between the parties, the effectiveness of the message is reported to be maximised (Duncan and Moriarty 1998; Andersen 2001).

Investigating ways of creating a dialogue between the parties, the literature emphasises “establishing a corporate brand/image” as a key aspect of advertising and sponsorship practices. Although, in the first instance this may not appear to be closely related to customer relationships, due to typical characteristics of services this comes out as an important aspect of promotional activities. The specific nature of services makes it difficult for customers to evaluate services; therefore image projections can be used to overcome the complexity of service evaluations, reduce customers' perceived risk and reiterate customer trust (Fletcher and Peters 1997; Peng and Wang 2006). There is some evidence that relationship enhancement through image projections may work at initial stages of relationships when customers have little trust or relationship commitment, whereas for more established relationships such promotional activities may not be as effective (Andersen 2001).

In addition to creating corporate/brand image, organisational motives in participating in particular sponsorship activities is another factor with likelihood to impact on customer relationships (Rifon *et al.* 2004). Yet, this potential seems to be more related with customer characteristics (Sen and Bhattacharya 2001).

Moving on to the direct marketing practice which is a highly popular communication channel, past studies present mixed evidence on the role of direct marketing in influencing customer relationships. Theoretically, it is declared that direct marketing, due to its capacity for improved targeting, can be used to promote customer relationships (Evans *et al.* 1996; O'Malley *et al.* 1997; Mitchell 2003). However, in practice, direct marketing is found to fail to achieve its potential (e.g., Debling *et al.* 2000). The way that direct marketing is applied by organisations, which is mainly to acquire new customers and cross-selling practices (Ridgway 2000; Farquhar 2004), may offer an explanation to this failure.

According to IMC researchers, a coordination between all forms of communication activities is necessary in order to deliver consistent messages (Moriarty 1994; Herrington *et al.* 1996), which will then contribute to the development of relationships (Moriarty 1994; Keller 2001; Fill 2005).

One commonality among successfully planned marketing communications (in terms of their effect on customer relationships) is identified as the nature of communication between the parties. The effectiveness of planned messages is reported to depend on to the extent that the message creates a two-way information transfer and an interactive dialogue between the parties. However, the marketing communications literature tends to focus on understanding the effectiveness of key communication channels, such as advertising, sponsorship and direct marketing, *per se*. The relationship marketing literature states that it is the nature of communication that is likely to promote key relationship components such as trust, relationship commitment, buyer-seller bonds or relationship benefits. When this knowledge is integrated with planned marketing communications, the effectiveness of marketing practices would be improved. In other words, advertising, sponsorship and direct marketing practices are expected to be

influential to the extent that the focus is the communication element rather than the channel. The current research aims to offer an enhanced understanding about the role of marketing communications in relationship development. In comparison with previous studies, this research concentrates on the communication element of planned marketing practices rather than the channel per se. This will offer a better understanding of customer relationships on the whole as well as shed light on the present confusion regarding the effectiveness of planned marketing communications.

CHAPTER 4

EXPLORING THE IMPACT OF SERVICE ENCOUNTERS ON CUSTOMER RELATIONSHIPS: A Perspective from the Literature

4.1 INTRODUCTION

This chapter investigates the impact of service encounters on customer relationships. As “critical moments of truth” (Bitner *et al.* 2000), service encounters have attracted a great deal of interest in the marketing literature. There is not one agreed definition of service encounters. The conventional approach to service encounters limits the scope of encounters to human interactions between organisations and their customers (e.g., Czepiel *et al.* 1985a; Solomon *et al.* 1985; Surprenant and Solomon 1987). For example, Surprenant and Solomon (1987) approach service encounters as “the dyadic interaction between a customer and service provider”. On the other hand, the broader aspect of service encounters takes into account all aspects of a service encounter, including human interactions with a service provider as well as its customers, remote interactions, the service environment and other visible elements of a service. Harris *et al.* (2003) label this broader aspect of service encounters as “total customer experience”.

The approach taken in the current research is the broader aspect of service encounters. In an era where many services head towards an electronic delivery path and in doing so are shifting from high-medium contact service delivery to low-contact service (Shostack 1985; Patterson and Ward 2000), a broader aspect of service encounters is deemed a better reflection of today’s circumstances.

With the aim of investigating the impact of service encounters on customer relationships, the service encounters literature is reviewed from four perspectives: Human interactions (Section 4.2), remote interactions (Section 4.3), service environment (Section 4.4) and word-of-mouth communication (Section 4.5).

4.2 HUMAN INTERACTIONS

Human interactions are limited to interactions with service providers since interactions with other customers are discussed in Section 4.5. Therefore, human interactions refer to the conventional aspect of service encounters as approached in this research.

Human interactions are a well-researched area of service encounters. These interactions may be in a direct form where the customer interacts with the staff in a face-to-face setting. The service also can be delivered indirectly, which involves verbal interactions between the parties in a non face-to-face setting using alternative delivery channels such as the telephone. Human interactions are looked at from the perspectives of interactions during the service delivery (Section 4.2.1) and the service recovery (Section 4.2.2). Then, fundamental communication characteristics of human interactions (Section 4.2.3) are investigated, followed by a discussion of staff training and empowerment (Section 4.2.4).

4.2.1 Human Interactions During Service Delivery

Due to the inseparability of production and consumption processes, service encounters are reported to be “the service” as perceived by customers (Surprenant and Solomon 1987; Bitner *et al.* 2000), highlighting the importance of service delivery in shaping customers’ experiences with service providers.

In a service delivery process, two parties interact: a provider producing the service and a customer consuming or using the service (George *et al.* 1985). The exchange process taking place between the parties is the service delivery itself. The role of human interactions in service delivery is commented by Czepiel *et al.* (1985a) as following:

To study the service encounter is to study the behaviour of human beings interacting... [which] encompasses the totality of feelings and activities that define what happens when two strangers meet, interact, and take leave of one another.

The impact of human interactions on customer relationships has received some academic interest (e.g., Adelman *et al.* 1994; Beatty *et al.* 1996; Doney and Cannon 1997; Sharma and Patterson 1999; O'Loughlin *et al.* 2004). It is documented that effective interpersonal communication between a service provider and its customers has a potential to facilitate the development of trust (Howcroft *et al.* 2003), relationship benefits (Adelman *et al.* 1994), and to act as a switching barrier, i.e. forming a type of buyer-seller bonds (Sharma and Patterson 1999). Moreover, trust in a salesperson is demonstrated to be transferable to the service provider (Doney and Cannon 1997). Similarly, Beatty *et al.* (1996) and Bove and Johnson (2000) suggest that loyalty to the company staff can be transferred to the provider.

Questioning whether the impact of human interactions would be restricted to a specific group of customers, such as older people, Howcroft *et al.* (2003) argue that even younger people who are typical users of telephone banking derive higher levels of trust from face-to-face interactions with their financial institutions compared with telephone banking.

To sum up, there is some evidence that human interactions during the service delivery play an important role in the relationship development process by impacting on trust in relationship partner, relationship commitment, buyer-seller bonds and relationship benefits. Investigating why human interactions would be essential in enhancing customer relationships, social support which is more likely to be delivered in a face-to-face setting is identified as a key aspect of human interactions. Ford (2001) suggests that customers expect to engage in conversations of a social nature in their dealings with service providers. The social nature of human interactions is viewed to enhance service relationships by reducing customers' perceived risks (Adelman *et al.* 1994; Sharma and Patterson 1999) and, from a psychological perspective, help to create a sense of social connection with other people (Adelman *et al.* 1994), i.e. promoting the formation of relationship benefits.

4.2.2 Human Interactions During Service Recovery

Service recovery is defined as "the actions that a service provider takes to respond to service failures" (Lewis and Spyropoulos 2001:37). Strikingly, it is not the

initial failure to deliver the core service, but the staff's response to the failure that causes dissatisfactory service encounters (Bitner *et al.* 1990). When customers experience problems with the service delivery, this can have a significant impact on the likelihood of relationship commitment and customer referrals (Hart *et al.* 1990; Jones and Farquhar 2003).

A successful service recovery process is found to have three alternative outcomes on customer relationships: (1) no impact on the relationship development, (2) threatening the relationship development and (3) facilitating the relationship development. Firstly, the success of the recovery process can prevent the relationship from deteriorating. In other words, customers experience minimal changes in their relationships when the service recovery has been to their satisfaction (Levesque and McDougall 1996; Mattila 2004). Secondly, customer satisfaction can decrease regardless of the success of the recovery process (McCollough *et al.* 2000). Taking into account that customer satisfaction is part of relationship commitment as discussed in Chapter 2, this implies that experiencing service failure regardless of the success of the recovery process may threaten the development of relationship commitment. Thirdly, a successful recovery process can enhance the relationship development, in particular by reinforcing the relationship commitment (Hart *et al.* 1990; Jones and Farquhar 2003).

According to Mattila (2004), these seemingly contrasting views on the impact of the recovery process on customer relationships can be explained by the type of the relationship. Mattila has demonstrated that a recovery process which is limited to an apology combined with a tangible compensation is adequate for customers with little emotional attachment to their organisations, while for emotionally-attached customers more customised service recovery strategies are needed.

The service encounters literature informs that interactions between the company staff and the customer during the service recovery have a considerable impact on customers' perceptions of the service. Going beyond simply replacing the failed product or service, the service recovery process can be used as an effective means of showing customers how much their relationships are valued by their organisations (Hart *et al.* 1990; Patterson and Ward 2000). Along with solving the problem, customers wish to see that organisations care about their problems

(Lewis and Spyropoulos 2001). Acknowledging the problem, explaining why the service is faulty/unavailable, apologising, and assisting the customer in solving the problem by suggesting other options can make a positive impact on the customer despite the service failure (Bitner *et al.* 1990). In these communications, the tone of the response (Hart *et al.* 1990) and the sincerity of the apology (Mattila 2004) are likely to improve the success of the service recovery. On the other hand, the negatively perceived character or attitude of the company staff, both verbal and nonverbal, is found to cause more dissatisfaction than the decreased quality of the core service (Bitner *et al.* 1990).

4.2.3 Fundamental Characteristics of Human Interactions

Human interaction characteristics, which are critical in influencing customer relationships, can be categorised as (i) customer orientation and (ii) personalisation.

(i) Customer orientation

According to Williams and Attaway (1996:39), customer orientation is “a philosophy and behaviour directed toward determining and understanding the needs of the target customer and adapting the selling organisation’s response in order to satisfy those needs”. Customer orientation is suggested to facilitate the development of positive long term customer relationships (e.g., Palmer and Bejou 1994; Beatty *et al.* 1996; Williams and Attaway 1996) by impacting on the level of trust (Bove and Johnson 2000), commitment (Stern 1997; Bove and Johnson 2000; Odekerken-Schröder *et al.* 2003), buyer-seller bonds (Stern 1997) and relationship benefits (Odekerken-Schröder *et al.* 2003).

Examining what aspects of customer orientation are important in forming and enhancing customer relationships, indicators of customer-oriented behaviour are stated to be caring about customer needs (Morgan and Hunt 1994; Gengler and Leszczyc 1997), showing personal touch, meeting customer needs accurately and demonstrating empathy towards the customer (Bove and Johnson 2000). Customer care appears to be a particularly important aspect of customer orientation, which is defined as “the customer’s perception of the employee having genuine concern for the customer’s well being” (Gremler *et al.* 2001:49). Caring is

believed to facilitate feelings of comfort and security in a relationship (Stern 1997), therefore facilitating perceived relationship benefits. Moreover, customer care is found to directly enhance the relationship commitment (Sharma and Patterson 1999). In order to read customers' needs accurately, listening to the customer is the first step that needs to be taken. "Sympathetic" or "responsive" listening is stated to evoke feelings of connectedness by making the customer feel understood, validated and cared about, despite the fact that the parties may know little or nothing about each other (Stern 1997). Another indicator of customer orientation is empathy which is about caring and paying individualised attention to the customer (Parasuraman *et al.* 1988; Patterson and Ward 2000). As part of effective communication skills (Sharma and Patterson 1999), empathy allows the service provider to read customers' needs accurately. Empathy is stated to be likely to impact on the formation of buyer-seller bonds through evoking the feelings of connectedness between the parties (Beatty *et al.* 1996).

Despite the evidence of customer-oriented behaviour on enhancing customer relationships, it should be noted that customer orientation is a delicate endeavour to perform. The effectiveness of the construct is highly dependent on the situation and desires of the individual customer (Solomon *et al.* 1985). For example, in a recent study it is demonstrated that customers attach more significance to the style of personal interactions when they perceive the purchase to be high-risk and complex (O'Loughlin *et al.* 2004). In addition, customer-oriented behaviour may not be welcomed by all customers. Adelman *et al.* (1994) report that some customers expect anonymity and confidentiality in their interactions with organisations, and may perceive customer-oriented behaviour as unwanted intrusions (Rust and Oliver 1994). It is yet unknown where to draw boundaries between customer-oriented behaviour, offering anonymity and being intrusive. Communication characteristics such as sincerity and voluntariness are reported to increase the likelihood that such actions are perceived as supportive, and would then reinforce customer loyalty (Rust and Oliver 1994).

(ii) Personalisation

Personalised (or customised) service is about "tailored service or service that attempts to address the unique needs of individual customers" (Ford 2001:4).

Despite being discussed separately, personalisation is closely related to customer orientation. Successful personalisation requires the service provider to identify customers' needs first (which is about customer orientation) and then adapt the delivery of the service accordingly (Bitner *et al.* 2000).

Indicators of personalised service are reported to be friendliness (Surprenant and Solomon 1987; Panther and Farquhar 2004) and helpfulness (Zineldin 1996), to recognise the customer as an individual (Surprenant and Solomon 1987; Ford 2001) and to communicate with customers in a language style that they can understand (Sharma and Patterson 1999). When human interactions are carried out in a personalised way, service encounters are likely to move from a formal business interaction to a more personal level (Surprenant and Solomon 1987). More specifically, the friendliness of bank personnel, along with other attributes involving helpfulness, transaction accuracy and efficiency in correcting errors, are found to be the most important determinants of bank selection (Zineldin 1996) and have a potential to enhance relationship commitment (Sharma and Patterson 1999). Service personalisation remains as a challenge to overcome particularly for industries that serve a large number of customers, such as financial institutions (Farquhar 2004).

Looking into why personalised service is favoured by customers, according to Bitner *et al.* (2000) customers desire services to fit into their individual needs rather than being offered in a rigid way. In a study by O'Malley and Prothero (2004), customers express their disapproval of corporate strategies which emphasise cross-selling. Such practices are viewed with potential to hamper the development of relationship commitment (Farquhar 2004) while the avoidance signals fairness and honesty of organisations (Andersen 2001).

On the other hand, it is asserted that personalisation should not be at the expense of the efficiency of the service (Surprenant and Solomon 1987). Although most customers prefer to be treated as an individual instead of a number by service providers, they do not want the efficiency and predictability of a service to be jeopardised by personalisation. It is shown that treating the customer as an individual outside the customer role, beyond simple courtesy, may threaten the perceived trustworthiness of service providers (Surprenant and Solomon 1987).

Therefore, Surprenant and Solomon caution that extra attention should be paid while attempting to personalise service encounters.

It should be highlighted that achieving an impact on customer relationships through the characteristics of human interactions is a rather complicated task. Customers will assign their own meanings to actions of the service provider (Rust and Oliver 1994). A friendly, helpful, caring and responsive behaviour, for example, is a function of not only the personality of a service provider, but also of the customer's perception of the interaction at the given situation (Czepiel *et al.* 1985b).

4.2.4 Staff Training and Empowerment

There is some evidence that the level of a salesperson's expertise which forms part of a staff training programme facilitates the development of trust between the parties (Crosby *et al.* 1990; Doney and Cannon 1997). Approaching staff training as "back stage act and processes", Baron *et al.* (1996) highlight that human interactions need to be supported by appropriate training programmes. Given that interpersonal skills along with technical capabilities result in service differentiation and customer retention, it is imperative that company staff who interact directly with customers are provided with intensive training (Sharma and Patterson 1999; Lewis and Spyropoulos 2001; Odekerken-Schröder *et al.* 2003; Panther and Farquhar 2004). Training programmes should be designed to develop a broader range of service knowledge rather than teaching strictly reading from a script (Bitner *et al.* 1990) and to improve interpersonal communication skills (Odekerken-Schröder *et al.* 2003).

Likewise, giving the staff some degree of empowerment promotes trust in the service provider (Gremler *et al.* 2001; Gounaris 2005) and relationship commitment (Farquhar 2004). Empowerment means having the authority, responsibility and incentives to recognise, care about and respond to customer needs (Hart *et al.* 1990). Empowering staff by giving them authority, responsibility and incentives, which is fundamentally about giving the staff the ability to develop relationships (Gremler *et al.* 2001; Gounaris 2005), will enable the service provider to tailor their responses and actions. It is suggested that the ability of staff to make a proper response is largely a function of the staff's knowledge level and authority

(Bitner *et al.* 1990; Lewis and Spyropoulos 2001). Although standardised responses or actions can be desirable in some types of routine human interactions, interactions in most service failure incidents should be customised to the specific needs of the customer. Restrictive bank policies which are common in much of retailing (Baron *et al.* 1996) are reported to hamper the development of customer relationships (O'Loughlin *et al.* 2004).

To summarise, the review of the service encounters literature supports that human interactions are, in fact, about communication. Despite the fact that relationships in a business setting are fundamentally purposeful, goal oriented, limited in scope, and not purely altruistic (Czepiel *et al.* 1985a; Solomon *et al.* 1985), interestingly they resemble the relationships that people form with their personal networks in relation to the communication aspect of relationships. Service relationships similarly require “care” (Morgan and Hunt 1994; Gengler and Leszczyc 1997; Lewis and Spyropoulos 2001), “sincerity” (Mattila 2004), “personal touch” (Bove and Johnson 2000), “empathy” (Bove and Johnson 2000) and “friendliness” (Zineldin 1996). Human interactions are the preferred method of interaction by some customers owing to the potential of human interaction to offer social support (Adelman *et al.* 1994; Ford 2001). Even a service failure can enhance customer relationships through the use of effective communication (Hart *et al.* 1990; Jones and Farquhar 2003), which explains why improving interpersonal communication skills should be part of employee training programmes (Odekerken-Schröder *et al.* 2003).

4.3 REMOTE INTERACTIONS

Remote interactions involve no direct or indirect human communication, but take place electronically. In remote interactions, customers use delivery channels such as the Internet, television or telephone (automated services) to interact with organisations (Durkin *et al.* 2003). Although service encounters traditionally rely on human interactions, services are increasingly being delivered remotely with little personal communication between the parties (Long and McMellon 2004).

The marketing literature presents mixed views on the impact of remote interactions on customer relationships. One group of researchers argues that remote interactions are likely to threaten the development of relationships due to their

adverse impact on relationship building efforts (Warrington *et al.* 2000; Zineldin 2000), such as (1) relationship commitment (Ibbotson and Moran 2003; Ryssel *et al.* 2004), (2) trust (Aladwani 2001; Leek *et al.* 2003; Ryssel *et al.* 2004) and (3) social bonds (Patterson and Ward 2000). Remote interactions are viewed, by this group of researchers, to present challenges to organisations by removing human contact and the visual and physical cues (Patterson and Ward 2000). When information technology is used as the mere means of communication, it impersonalises relationships (Aladwani 2001; Leek *et al.* 2003; Ryssel *et al.* 2004) and gradually reduces opportunities for social interactions (de Wulf *et al.* 2001). In situations where social interactions are limited, this may result in customers approaching organisations in a purely transactional manner (O'Loughlin *et al.* 2004). Moreover, remote interactions are stated to be likely to threaten service differentiation efforts, therefore placing further challenges on organisations in terms of maintaining a committed customer base (Rexha *et al.* 2003). As a solution to these obstacles, Rexha *et al.* (2003) suggest that only after having established a committed customer base should organisations consider shifting to remote interactions.

On the other hand, a second group of researchers presents positive views on the impact of remote interactions on customer relationships. For example, Patterson and Ward (2000) note that some customers may establish a type of relationship with their providers based on solely remote interactions. Similarly, Tomiuk and Pinsonneault (2001) argue that electronic banking environment is not an impediment for the development of a loyal customer base. Despite reducing opportunities for social interaction, remote interactions are believed to offer a number of alternative benefits to customers (de Wulf *et al.* 2001; Tomiuk and Pinsonneault 2001; Yen and Gwinner 2003). Today's customers have less time and subsequently desire convenience and increased accessibility (Solomon *et al.* 1985; Dabholkar 1994; Zineldin 1996; Moutinho and Smith 2000; Yen and Gwinner 2003) as well as gained control over their dealings with organisations (Yen and Gwinner 2003). These are the aspects that a remote service organisation can deliver effectively in comparison with a traditional provider (Yen and Gwinner 2003).

Investigating characteristics of remote interactions which are likely to influence customers' relationships with service providers, technical aspects and the logistics of receiving and returning the product are stated to gain importance in customers' evaluations of remote service encounters (Long and McMellon 2004). It is presented that the constant availability of information (which is about technical reliability), easy navigation and system interactivity are likely to promote customer relationships by impacting on trust, relationship commitment (Bauer *et al.* 2002) and relationship benefits (Yen and Gwinner 2003). Jones *et al.* (2000) specify that the accessibility and security of the technical infrastructure influence trust in remote interactions.

Drawing on these studies, it could be argued that remote interactions have a potential to facilitate relationship development for particular relationship types where customers place higher importance on attributes such as time-saving, convenience and control than human interaction characteristics. Nevertheless, there appears to be some doubt on whether interactions based on speed, efficiency and convenience can be categorised under relationships. There is a debate that these characteristics are transactional in nature rather than being relational (e.g., Gutek *et al.* 2000; Ford 2001; Rexha *et al.* 2003). According to advocates of this view, characteristics such as speed and efficiency gain importance only in routine services, while in most service encounters customers expect organisations "to spend substantial time with them and not rush the social and informational exchange" (Ford 2001:20). In Chapter 2, it was discussed that characteristics such as predictability and convenience promote continuance commitment, thereby implying a particular type of relationship. Support to this view comes from a recent study by Yen and Gwinner (2003:494) who argue that "relationships with a computer interface are notably different from relationships with people".

Remote interactions can also be used as part of a relationship development process in traditional relationships where human interactions are given higher importance. When remote interactions are used to complement, rather than substitute, human interactions (Dabholkar 1994; Durkin *et al.* 2003), they can facilitate the development of customer relationships (Zineldin 1996; Leek *et al.* 2003).

4.4 SERVICE ENVIRONMENT

Service environment is essentially an extension of human interactions. The nature of remote interactions means that the service encounter in a remote setting lacks visible cues.

The effect of physical design and décor elements on customers is well researched in the marketing literature (e.g., Shostack 1985; Bitner 1992; Walker 1995; Balmer and Stotvig 1997; Harris *et al.* 2001). This is not unexpected since human behaviour is known to be influenced by the physical setting surrounding individuals (Bitner 1992). Characteristics of the service environment such as lighting, colour, signage, textures, artwork and temperature communicate symbolic meanings, and create an overall impression of firms by providing a visual metaphor (Bitner 1992).

It is acknowledged that the service environment takes on an additional importance for service customers because of the unique characteristics of services (Upah and Fulton 1985). Since customers have difficulty in assessing services which are essentially intangible, they search for other cues such as tangible evidence and the way they are treated at the service encounter (Upah and Fulton 1985; Bitner 1990; Patterson and Smith 2001). Additionally, because the service is produced and consumed simultaneously, the place where the service is produced has a strong impact on customers' perceptions of the service experience (Bitner 1992).

Although the importance of the service environment in influencing customers' service experiences is recognised (e.g., Shostack 1985; Upah and Fulton 1985; Bitner 1990), there is no evidence on the impact of the service environment on customer relationships apart from an argument by Bitner (1992). Bitner (1990) reports that relationship building with service customers could be influenced by the design of the physical setting. This may be due to the potential of the physical environment to affect the image of service providers (Upah and Fulton 1985; Bitner 1992), customer satisfaction (Shostack 1985; Bitner 1992) and service quality (Upah and Fulton 1985).

A particular aspect of the service environment has received research interest in the service encounter literature, which is the staff dress code. The dress code is

reported to have a potential to increase service consistency and predictability which are promoters of customer commitment (Stern 1997; Ball *et al.* 2004) in certain relationships. The uniform is a means to standardise the encounter process and promotes consistency (George *et al.* 1985). Consistency in the service environment is believed to reduce customer uncertainty and increase customer confidence (Mitchell and Greator 1993). Similarly, Shostack (1985) argues that staff uniform and corporate apparel provide the customer with a sense of security and familiarity. Non-standardisation during the service encounter may cause dissatisfaction due to the lack of consistency, which could then increase the likelihood of perceived risk (George *et al.* 1985).

4.5 WORD-OF-MOUTH COMMUNICATION

Apart from organisations, customers can obtain information from external sources through word-of-mouth (WOM hereafter) communication which has been given considerable attention both in the marketing communications and the services marketing literature (e.g., Brown and Reingen 1987; Haywood 1989; Herr *et al.* 1991; Bendapudi and Berry 1997; Mangold *et al.* 1999; Price and Arnould 1999; Bove and Johnson 2000; Ennew *et al.* 2000; Grönroos 2000a; Gremler *et al.* 2001; Fill 2005). WOM communication is defined as non-paid and informal information received through the personal network, other customers and the media (Westbrook 1987; Ennew *et al.* 2000; O'Cass and Grace 2004). Communicating favourable as well as unfavourable information about the ownership, usage or characteristics of particular goods and services and/or their providers (Westbrook 1987), WOM can take place at a conventional service setting (such as a bank branch) or outside.

WOM communication is mostly regarded as unplanned or uncontrolled information in the literature. However, this does not necessarily indicate that third party communication is always independent of organisational influence. Customer referral campaigns offering an incentive for referrals are increasingly used by organisations to increase their customer base (Bendapudi and Berry 1997; Ennew *et al.* 2000). These campaigns are one of the most direct and planned forms of managing WOM communication, thereby questioning the extent of WOM being an unplanned type of communication (Grönroos 2000a) as well its objectivity.

It is surprising that no studies are found in the marketing communications literature that focuses on the impact of WOM referrals on customer relationships. There are some theoretical contributions on the potential of WOM communication to enhance or threaten relationship development (e.g., Grönroos 2000a; Fill 2005); yet none with any empirical support. There is an acceptance that WOM communication is likely to influence (1) customer satisfaction (Baron *et al.* 1996), (2) purchasing behaviour (Baron *et al.* 1996; Grace and O'Cass 2005) and (3) attitude formation (Herr *et al.* 1991; O'Cass and Grace 2004) as well as (4) reducing customers' perceived risk (Derbaix 1983; Murray 1991; Ennew *et al.* 2000). Hence, it can be expected that WOM communication is also likely to influence the relationship formation and maintenance. In Chapter 2, it was discussed that customer satisfaction and purchase behaviour were components of relationship commitment while perceived risk is related with trust.

Concentrating on WOM studies documented in the literature, there is agreement that third party referrals are valuable means for promoting firms' products and services (Beatty *et al.* 1996; Gremler *et al.* 2001). Benefits of WOM communication to organisations are believed to be extensive. For example, it is reported that WOM is likely to contribute to firms' competitive advantage by differentiating the organisation in the competition (Fill 2005). WOM referrals can also make a direct impact on corporate marketing strategies by reducing the need for planned marketing communications (Holmes and Lett 1977; Grönroos 2000a). On the other hand, WOM communication can have adverse effects on organisations by undermining the effectiveness of company initiated communication especially if third party information is negative (Grönroos 2000a; Grace and O'Cass 2005).

WOM has been reported to influence a variety of conditions such as product/company awareness, customer expectations, perceptions, attitudes, behavioural intentions and purchase behaviour (Buttle 1998) both in the short- and long-term (Bone 1995). Although WOM can be part of a customer referral campaign (Bendapudi and Berry 1997; Ennew *et al.* 2000), most WOM research takes a position that third-party referrals are free of promotional bias. For example, Baron *et al.* (1996) report that information through WOM referrals is mostly based on other people's personal experiences whereas customer-staff interactions are

more likely to be influenced by company policies. Due to this nature of WOM communication, third party referrals are stated to be more objective (Gabbott and Hogg 1994; Grönroos 2000a), trustworthy (Bone 1995; Grönroos 2000a), credible (Bone 1995; Baron *et al.* 1996; Gremler *et al.* 2001; Lam and Mizerski 2005) and salient (O'Loughlin and Szmigin 2005) than planned marketing communications. Consequently, customers approach WOM referrals with less scepticism than firm initiated promotional efforts (Herr *et al.* 1991).

Nevertheless, there is some evidence that the impact of WOM on customers may not be considerable in every case (e.g., Wilson and Peterson 1989; Herr *et al.* 1991; O'Cass and Grace 2004). The potential of WOM communication varies depending on a number of factors including (1) the extent of external search, (2) communicator characteristics, and (3) content of information as discussed next.

In terms of the extent of external search, the customer should, first of all, feel a need to search for external information. When there are no previous interactions with a specific company or knowledge of a product category, or the information already held is considered insufficient to form an opinion then the customer would be motivated to search for information externally (Gabbott and Hogg 1994). The extent of the external search depends on a number of factors including: (i) product category experience and (ii) product complexity and the degree of buyer uncertainty.

(i) Product category experience

Depending on the familiarity and the nature of previous experiences, the effectiveness of WOM communication varies (Gabbott and Hogg 1994; O'Cass and Grace 2004). More specifically, it is acknowledged that as direct experience or familiarity with the brand increases, referrals from other people become less important (Wilson and Peterson 1989; Herr *et al.* 1991; O'Cass and Grace 2004). This is because, according to Herr *et al.* (1991), if customers are to make a choice between the opinions of their own and others they are likely to give more weight to their own opinions. If the third party information does not comply with existing beliefs or affective predispositions then it tends to be distorted or ignored by the receiver (Wilson and Peterson 1989). This suggests that once customers build an evaluative position toward a product, they start filtering information on that product.

In extreme cases, when customers feel committed towards an organisation they resist negative WOM information on the company or its offerings (Ahluwalia *et al.* 2000). Research by Ahluwalia *et al.* (2000) indicates that low commitment customers are more receptive to negative information in comparison with highly committed customers. Hence, the impact of WOM communication is at its highest level when customers have little experience of the product (O'Cass and Grace 2004) or their commitment to the relationship is low (Ahluwalia *et al.* 2000).

(ii) Product complexity and the degree of buyer uncertainty

WOM is expected to be most effective when the product has predominantly experience and credence qualities. Such products involve a higher degree of perceived risk in making a purchase decision (Ennew *et al.* 2000) since little can be known or assessed prior to making a purchase (Gabbott and Hogg 1994). Therefore, WOM communication is believed to be an important source of information particularly for service customers prior to their patronage (e.g., Haywood 1989; Murray 1991; Gabbott and Hogg 1994; Ennew *et al.* 2000; O'Cass and Grace 2004). Services are information driven. This means that there are limited tangible cues to evaluate the service. The typical characteristics of services, including intangibility, the inseparation of production and consumption and non-standardisation, increase the complexity of a service purchase, in particular when the customer's own experiences are limited (Gabbott and Hogg 1994). Thus, WOM communication is likely to compensate for the lack of tangible cues (O'Cass and Grace 2004). Moreover, perceived risk associated with a service purchase is believed to be higher than goods; so customers would be more in need of information prior to a service purchase (Haywood 1989; Murray 1991; Ennew *et al.* 2000). When the complexity or risk of the purchase is perceived to be high this results in placing a greater reliance on personal sources (Haywood 1989; Murray 1991; O'Cass and Grace 2004) in order to simplify information seeking and decision making processes (Lam and Mizerski 2005) and to make better informed choices (Ennew *et al.* 2000).

Moving on to communicator characteristics, it is often cited that the perceived credibility of the WOM communicator is central to the impact of the communication (e.g., Brown and Reingen 1987; Haywood 1989; Ennew *et al.* 2000; Fill 2005). Physically or socially close people (Haywood 1989) who are known and trusted by

the WOM receiver (Ennew *et al.* 2000) and usually are from family and social sources (Mitchell and Greatorex 1993; Ennew *et al.* 2000) are reported most likely to be sought after and used in the customer purchase decision processes.

Finally, the content of information is reported to impact on the potential of WOM communication. It is frequently noted that negative experiences are more influential than positive WOM communication (Herr *et al.* 1991; Grönroos 2000a; Laczniak *et al.* 2001). In particular, Hart *et al.* (1990) suggest that customers who have had unfavourable experiences tell approximately 11 people about these experiences while those with good experiences tell just six. Furthermore, Mangold *et al.* (1999) have demonstrated that subjective information such as the quality of a service is more likely to be communicated among customers whereas more objective types of information such as price accounts for a relatively small share of third party communication.

4.6 CONCLUSION

Considerable support has been found on the importance of service encounters in influencing customer relationships. Going beyond a setting where a service is produced and delivered, service encounters offer an opportunity to enhance (and threaten) customer relationships. Along with delivering the core service successfully, the nature of interactions with service providers takes equal, if not more, importance. For example, it is acknowledged that the development of customer relationships is promoted when customer needs are met in a caring way (Morgan and Hunt 1994; Gengler and Leszczyc 1997) by showing personal touch and empathy (Bove and Johnson 2000). In service provider and customer interactions, the tone of the communication (Hart *et al.* 1990) as well as the sincerity of the provider (Mattila 2004) are documented as critical characteristics of communication.

In addition to interpersonal communication, the service encounter can be argued to have a potential to contribute to certain types of relationships by helping the customer establish familiarity, consistency and predictability of the service.

In comparison, remote interactions are much more limited in terms of offering physical and visible cues. They replace most of the human interaction characteristics with technology-related characteristics such as convenience, accessibility and control. When a service encounter takes place remotely, customers do not only consider whether the service is delivered, also the way it is delivered. This aspect of remote interactions shows similarity to a traditional service setting. This highlights the importance of communication for service encounters taking place in a remote as well as traditional service setting.

Furthermore, an extended approach to service encounters is a better reflection of modern societies, where customers receive information about organisations from a variety of communication sources. Despite the lack of empirical support on the impact of WOM communication on customer relationships, it is reported that WOM communication promotes customer satisfaction (Baron *et al.* 1996) and purchase behaviour (Baron *et al.* 1996; Grace and O'Cass 2005). Due to the relation between these constructs and relationship components such as relationship commitment, it can be expected that WOM would contribute to the development of customer relationships.

Finally investigating how the impact of service encounters can differ depending on the type of relationship, it is acknowledged that remote interactions are notably different from relationships based on human interactions (Yen and Gwinner 2003). In particular, remote interactions can be identified with less customer involvement with organisations and less of an emotional attachment. In conclusion, it can be inferred that certain type of service encounter interactions with service providers (i.e. human versus remote interactions) would promote certain relationship types. The role of the service environment and WOM communication in encouraging certain relationship types is yet unclear.

CHAPTER 5

RESEARCH CONTEXT AND DESIGN

5.1 INTRODUCTION

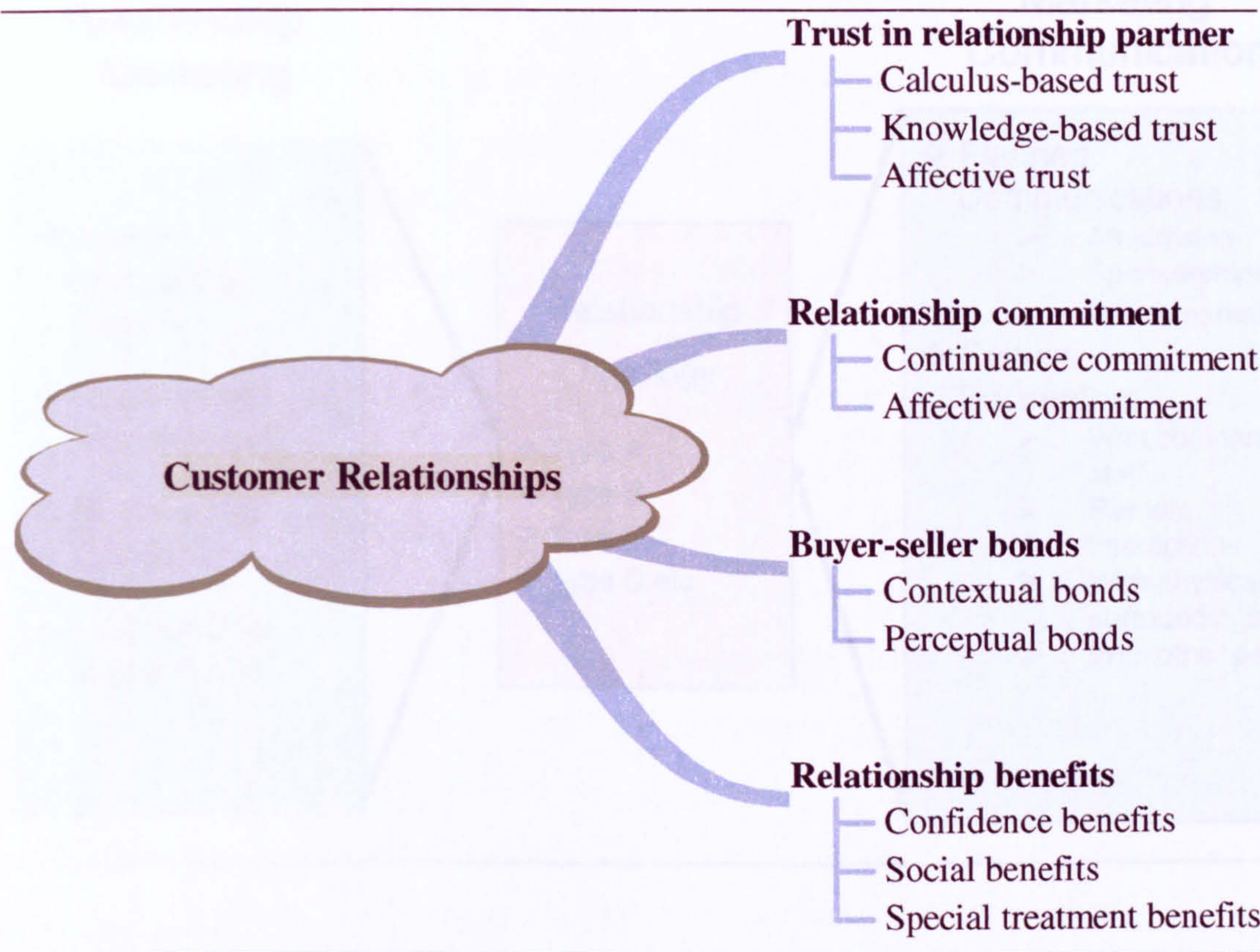
The context and design of this research has been informed by findings from the relationship marketing and marketing communications literature as discussed in Chapters 2, 3 and 4.

In light of this review, the chapter starts with a presentation of the conceptual framework employed (Section 5.2) followed by research aim and questions (Section 5.3). The methodological process of the research involved the selection of an appropriate research context (Section 5.4), the philosophical stance taken in the research (Section 5.5), the research design (Section 5.6), participant recruitment methods (Section 5.7), profile of participants (Section 5.8) and the selection of appropriate analytical techniques for data analysis and interpretation processes (Section 5.9). The chapter ends with some remarks on the rigour of the research (Section 5.10) along with a discussion of ethical considerations shaping the research (Section 5.11).

5.2 CONCEPTUAL FRAMEWORK

This research, as indicated above, is based on a review of the two literatures pertinent to relationship marketing and marketing communications. From the early research up to the present time there has been a lack of agreement about the definition of relationship marketing and how this term should be operationalised. However, research in this area is vital as customer relationships are a valuable asset that companies need to manage. Therefore, despite this lack of agreement, the relationship marketing literature was employed in order to identify the fundamental components of customer relationships. The four components identified were then used as a framework to build a relationship typology as presented in Figure 5-1.

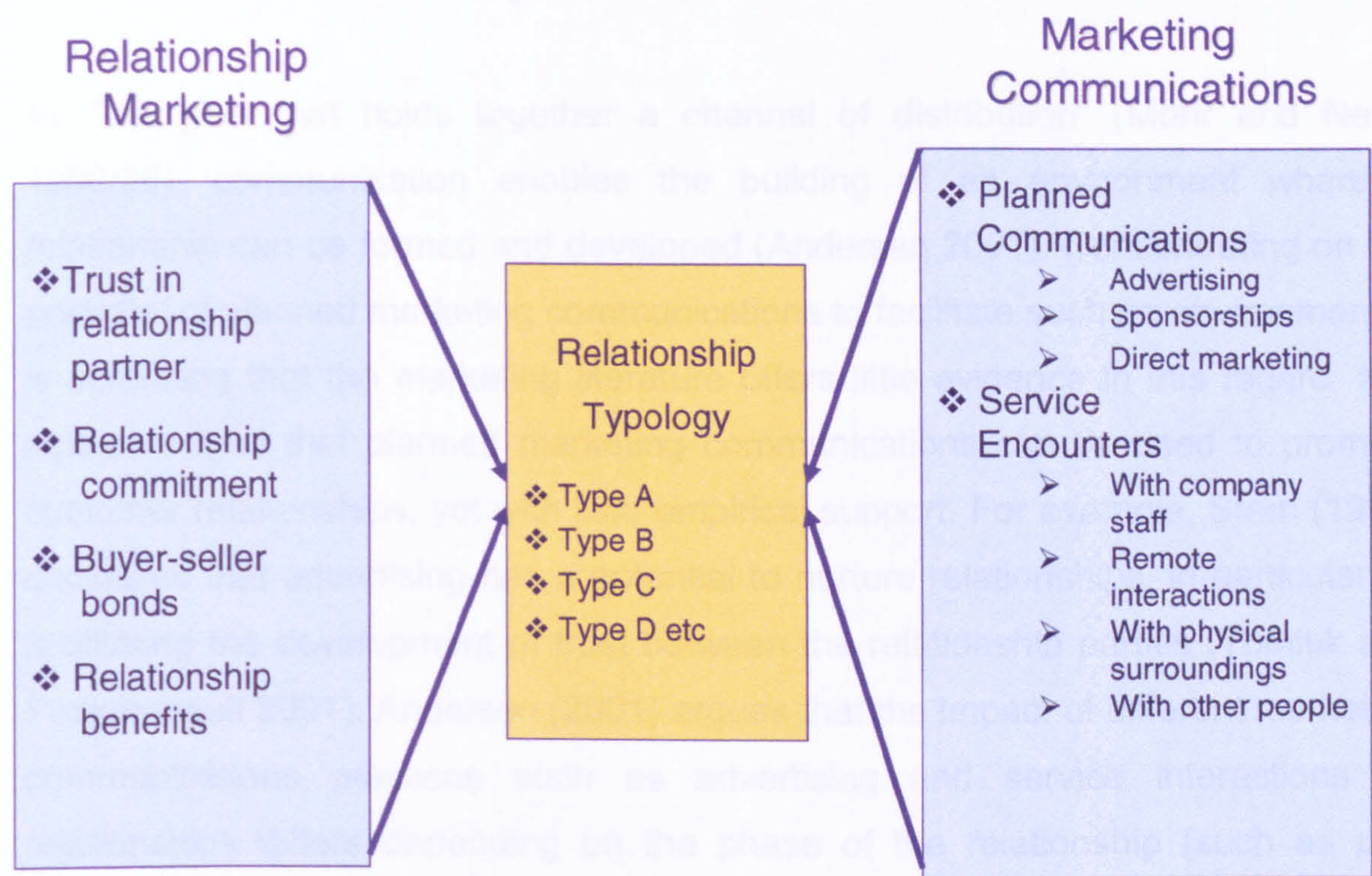
Figure 5-1 Fundamental components of customer relationships as informed by relationship marketing literature



Next, by concentrating on the marketing communications literature, two main types of marketing communications activities were identified: planned marketing communications and service encounters. The two activities were then used as a basis for understanding the nature of communication between banks and their customers.

Figure 5-2 illustrates the conceptual framework used throughout the research. At the outset of the research, by allowing relationship types to emerge from the data, an open-minded approach was taken to the number of relationship types. Hence, in the conceptual framework, relationship types were labelled as types A, B, C, D etc. Only after the data collection and analysis stages, were these labels replaced with representative labels as informed by the data. Having developed a relationship typology, the impact of planned marketing communications and service encounters on each of these relationship types were investigated, as presented in Chapters 7 and 8.

Figure 5-2 Conceptual framework employed in the research process



5.3 RESEARCH AIM AND QUESTIONS

This research is concerned with investigating the communication aspect of relationships. In particular, the impact of marketing communications on customer relationships from the perspective of different relationship types is focused on.

Developing a relationship with individual customers has been the focus of relationship marketing due to an understanding that customer retention is economically more advantageous than mere customer recruitment (Sheth and Parvatiyar 1995b). However, there is still a lack of consensus about how customers perceive their relationships with organisations (Barnes 1997; Evans *et al.* 2001; Vincent 2001; Liljander and Roos 2002; O'Malley and Prothero 2004). It is essential to address this issue, since establishing relationships becomes increasingly more important in order to obtain a sustainable customer base.

The communication aspect of customer relationships is an empirically under-researched area (Odekerken-Schröder *et al.* 2003). Two disciplines which are relationship marketing research and marketing communications research were

drawn together in order to present insight into the area of investigation, and hence to build on the limited existing knowledge.

As “the glue that holds together a channel of distribution” (Mohr and Nevin 1990:36), communication enables the building of an environment where a relationship can be formed and developed (Andersen 2001). Concentrating on the potential of planned marketing communications to facilitate such an environment, it is surprising that the marketing literature offers little evidence in this regard. It is acknowledged that planned marketing communications can be used to promote customer relationships, yet with little empirical support. For example, Stern (1997) discusses that advertising has a potential to nurture relationships, in particular by facilitating the development of trust between the relationship parties (Tomiuk and Pinsonneault 2001). Andersen (2001) argues that the impact of different marketing communications practices such as advertising and service interactions on relationships differs depending on the phase of the relationship (such as pre-relationship phase, negotiation phase and relationship development phase). Similarly, Cornwell and Maignan (1998), Olkkonen (2001) and Rifon *et al.* (2004) regard sponsorship as a means to improve customer relationships, yet with no empirical support.

In terms of service encounter interactions, this is a relatively more developed area. As “the service” from the customers’ point of view (Surprenant and Solomon 1987; Bitner *et al.* 2000), there is no doubt that service encounters play a central role in relationship formation and maintenance (Beatty *et al.* 1996; Sharma and Patterson 1999; Bove and Johnson 2000; Patterson and Ward 2000; O’Loughlin *et al.* 2004). However, it is not very clear whether, and how, certain aspects of service encounters enhance (or threaten) the development of certain relationship types.

Taking these studies further, the current research aims to gain an enhanced understanding about the nature of customer relationships. First, it will be examined which aspects (i.e. characteristics) of communication has a potential to enhance and threaten the development of relationships. Then, it is further elaborated how these aspects differ, if at all, in various relationship types. In terms of the context of the research, the UK banking sector will be looked at, the rationale for which will be discussed in Section 5.4.

The main contribution of this research to the literature is related to the insight it presents on the communication aspect of customer relationships. No previous studies, which focus on the relative impact of various communication characteristics in a multiple relationship context, are identified. To this end, the research questions are identified as following:

- Q1.** What types of relationships can customers form with their financial institutions?
- Q2.** How, if at all, can planned marketing communications impact on the type of relationship between financial institutions and their customers?
- Q3.** How, if at all, can service encounter interactions impact on the type of relationship between financial institutions and their customers?

5.4 OVERVIEW OF THE UK BANKING SECTOR

The context of the research is chosen to be the UK banking sector for a number of reasons. Firstly, banking, as a type of service, is reported to be a suitable context to explore relationships (Barnes 1997; Colgate and Danaher 2000; Lang and Colgate 2003; Panther and Farquhar 2004). Financial services encompass characteristics of service such as intangibility, heterogeneity and inseparability of production and consumption processes (Gabbott and Hogg 1994). As discussed in Chapter 2, these characteristics make financial services difficult to evaluate even after the purchase which leads to greater risk and uncertainty on the customer (Colgate and Danaher 2000). Engaging in a relationship with service providers is viewed as a strategy to overcome service uncertainty (Berry 1983).

Secondly, when banks are operating in a stable and deregulated environment, and are under competitive pressures, customer relationship management becomes a key strategy for bank positioning (Levesque and McDougall 1996). The UK banking sector is one of the most deregulated sectors of the UK economy (Jayawardhena and Foley 2000), and consequently the global competition has been increasing in the UK banking market since the 1980s (Egan and Shipley 1995; Durkin and Howcroft 2003; Hughes 2006). For those institutions that do not want to use pricing as a competitive advantage, the management of relationships is seen as an alternative way to gain competitive advantage.

Thirdly, a condition critical to this research is the extensive use of a range of communication channels by the financial services, in particular planned communication (advertising, corporate sponsorship and direct marketing as investigated in this research) and service encounters. The UK retail banks are among the heaviest users of advertising embracing all forms of communication media such as television, the Internet, radio and hoarding (Key Note 2003). UK financial mailings are reported to account for 40 per cent of total mailing volumes (Ridgway 2000). Likewise, UK banks are also reported to be using sponsorship activities as another popular marketing tool (Thwaites 1995). Hence, the UK banking sector offers a suitable context to investigate marketing communications activities.

Finally, the UK banking market also offers a good context for developing relationships. According to the Association for Payment Clearing Services, in 2001, 95 percent of adults in the UK had some form of banking account (Key Note 2003). The majority of UK bank customers are found to remain with the same bank for the most of their lifetime and use the same bank for all of their retail banking needs (Key Note 2003).

5.4.1 Retail Banking in the UK: From Past to Present

According to a Key Note report (2003), two factors have facilitated the development of retail banking in the UK. The first factor is falling returns from investment and corporate banking. As a result, UK financial institutions have come to rely on their personal banking operations especially in the domestic market. The second factor is that the Competition Commission prevented banks from further large-scale mergers. This means that the banks need to grow through organic means by actively increasing their personal and corporate customer base.

Currently, various groups operate in the UK retail banking market including: (1) high street banks and former building societies, (2) mutual building societies, (3) supermarkets, (4) post offices and (5) insurance companies. Among these, high street banks continue to dominate the banking market despite facing some competition from the other groups since the removal of entry barriers in the 1980s.

In particular, the five main high street banks (namely HSBC, The Royal Bank of Scotland Group (RBS), Barclays, HBOS and Lloyds TSB) lead the provision of personal banking services (Key Note 2003).

Based on a review of the UK banking literature, two factors can be argued to have played a considerable role in shaping the current nature of the UK banking sector: (i) the regulatory environment and (ii) technological advancements (McGoldrick and Greenland 1994).

(i) Regulatory environment

In the 1960s, banks in the UK were exclusive suppliers of financial services. The sector operated on an oligopolistic basis with a cartel restricting price competition (Durkin and Howcroft 2003). Traditionally, the UK banks perceived their main role as being to finance the corporate sector with funds collected from the personal sector via a branch network. Since the degree of price and product competition was limited, competition was mostly expressed in the number of branch outlets.

Subsequently, in the 1970s and 1980s legislation was introduced to encourage competition, including Competition and Credit Control (1971), the Banking Act (1979), the Building Societies Act (1986) and the Financial Services Act (1986) (Durkin and Howcroft 2003), which altered the financial services regulatory environment quite radically. Of these, the 1986 Building Societies Act could be regarded as being among the most influential UK legislation in the financial services sector. The Act changed the basis on which building societies operated by empowering building societies to offer current accounts and foreign exchange, and to sell insurance and investment products. This meant that, going beyond their traditional savings and mortgage markets, building societies could compete directly with banks, something which was reported to be a major victory for the societies (McGoldrick and Greenland 1994). Consequently, the traditional domains of banks and building societies started to be eroded with the removal of barriers which had previously prevented inter-sector competition (Easingwood and Storey 1996), and promoted an intense competition in the financial market (Hughes 2006).

Following deregulation, there was also a dramatic increase in the number of new entrants into the UK financial services sector in the 1990s (Egan and Shipley 1995). The UK financial services sector was expanding not only due to expansions within the financial services sector but due to new foreign entrants into the sector, especially from Europe, Japan and the United States. In particular, the credit cards market was the point of interest of new entrants with approximately 60 companies issuing 1,500 different types of credit cards between them by the year 2000 (CCRG 2002). Before the arrival of US issuers, the UK credit cards market was dominated by the main high street banks. The market share of four large UK card companies, namely Barclaycard, NatWest, Midland and Lloyds TSB, fell from 78 percent to 59 percent in the 1990s. Even competitors from outside the traditional boundaries of the sector, such as recognised high street brands and supermarkets (for example, Marks and Spencer, Virgin Group, Tesco and Sainsbury) started to develop an interest in the banking market. In order to be able to offer financial products, supermarkets formed joint ventures with established banks. For example, HBOS has a 45% stake in Sainsbury's Bank plc, and Tesco Personal Finance is owned jointly by Tesco and Royal Bank of Scotland (Key Note 2003). Instead of providing a full spectrum of banking services, these new entrants offered only those services which guaranteed the best returns, and by doing this they became highly price competitive compared with traditional banks. Also, since the new entrants often had a well-established retail brand, this made them a considerable competitive threat to banks (Durkin and Howcroft 2003).

There was limited scope for banks to compete on the basis of price since banking was a highly cost-driven business due to large branch networks and mostly manually-handled operations. The banks' response to this new environment was to consolidate and embrace technological innovations which allowed cost reductions (Greenland 1994). By combining different institutions under one holding company, financial institutions expanded horizontally. Models of bancassurance, which is an alliance between a bank and insurance company for the purpose of offering customers complete product ranges, were adopted by major UK banks in order to bring together the different strengths of each operational unit, and enter into new consumer markets. This resulted in such a concentration in the UK market that in the early 1990s the four major clearing banks (Barclays, National Westminster, HSBC and Lloyds TSB) controlled over 60 percent of the retail

banking market share in terms of current account numbers or branches (McGoldrick and Greenland 1994).

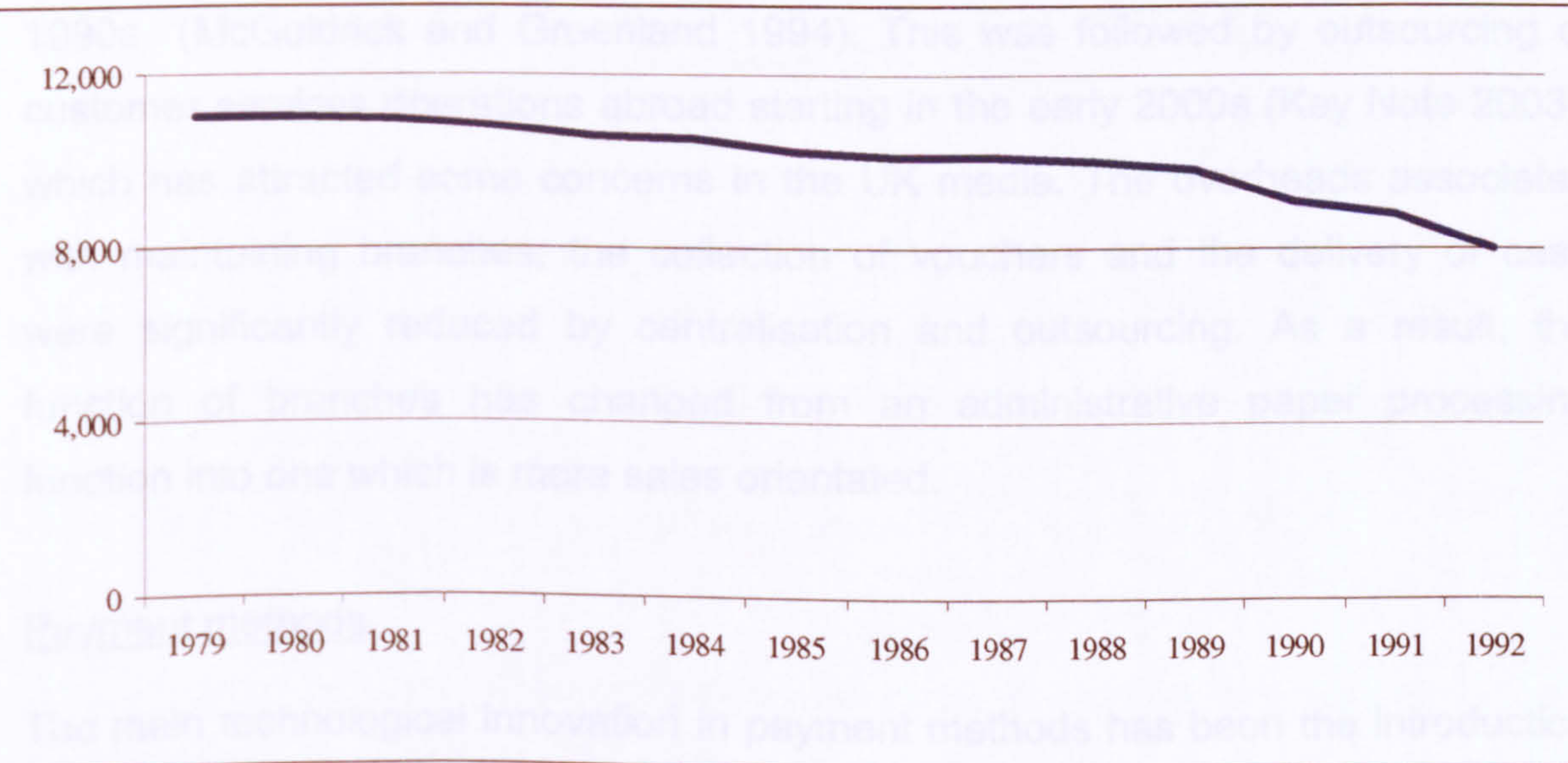
(ii) Technological advancements

The UK financial services sector has been at the forefront of the adoption of new banking technologies (Hughes 2006). In an era when banks face pressures from intensified competition and rising costs, technological innovations are being embraced vigorously as a solution to bank profitability. Before the age of computers, financial accounts were being processed manually. The advent of mainframe computers enabled most routine banking operations to be handled electronically in a more speedy and cost-efficient way (Egan and Shipley 1995). The impact of technology on financial services has been predominantly on delivery channels and payment methods.

Delivery channels

Until the 1970s, the branch network used to be the main delivery channel; yet this was to change in response to increasing pressures on bank profitability levels (Greenland 1994). Graph 5-1 presents the radical decline in branch numbers of the big-four UK banks (Barclays, National Westminster, HSBC and Lloyds TSB) which went down almost by a quarter from 1979 to 1992.

Graph 5-1 Rationalisation of the branch network of the big-four UK banks from 1979 to 1992



Source: Compiled from Annual Abstract of Banking Statistics, British Bankers’ Association, various issues.

In the 1980s major financial institutions began to make significant losses for the first time in their histories, and as a result took a harsh strategic overview of their operations. This was the time network rationalisations were undertaken by most banks, facilitated by the introduction of new banking technologies. The sector recognised that its traditional channels (i.e., branch networks) needed to be restructured and more cost efficient distribution channels introduced (Easingwood and Storey 1996). The introduction of ATMs in the early 1970s marked the beginning of the use of alternative distribution channels as a strategy to control rising banking costs, channels which now include telephone banking, online banking, interactive-television banking and mobile banking. The growing provision of banking services through alternative outlets, such as supermarkets and the Post Office, has added to the diversity of distribution. There was a net reduction of 130 branches, or 1% of the branch network, during 2001 alone (Key Note 2003). This is hardly surprising given that ATMs, for example, are able to carry out the same transaction as do human tellers in branch offices at half the cost and with a four-to-one productivity advantage (Moutinho *et al.* 1997).

It did not take long to realise that closing branches did not necessarily reduce the need for staff, as customers and their account records were simply transferred to other branches. In other words, more cost-effective solutions to rising banking costs were needed, explaining the emergence of banking centralisation. Removing processing and telephone enquiry functions from branches to centralised centres with the help of technology was a major programme for most UK banks in the 1990s (McGoldrick and Greenland 1994). This was followed by outsourcing of customer services operations abroad starting in the early 2000s (Key Note 2003), which has attracted some concerns in the UK media. The overheads associated with maintaining branches, the collection of vouchers and the delivery of cash were significantly reduced by centralisation and outsourcing. As a result, the function of branches has changed from an administrative paper processing function into one which is more sales orientated.

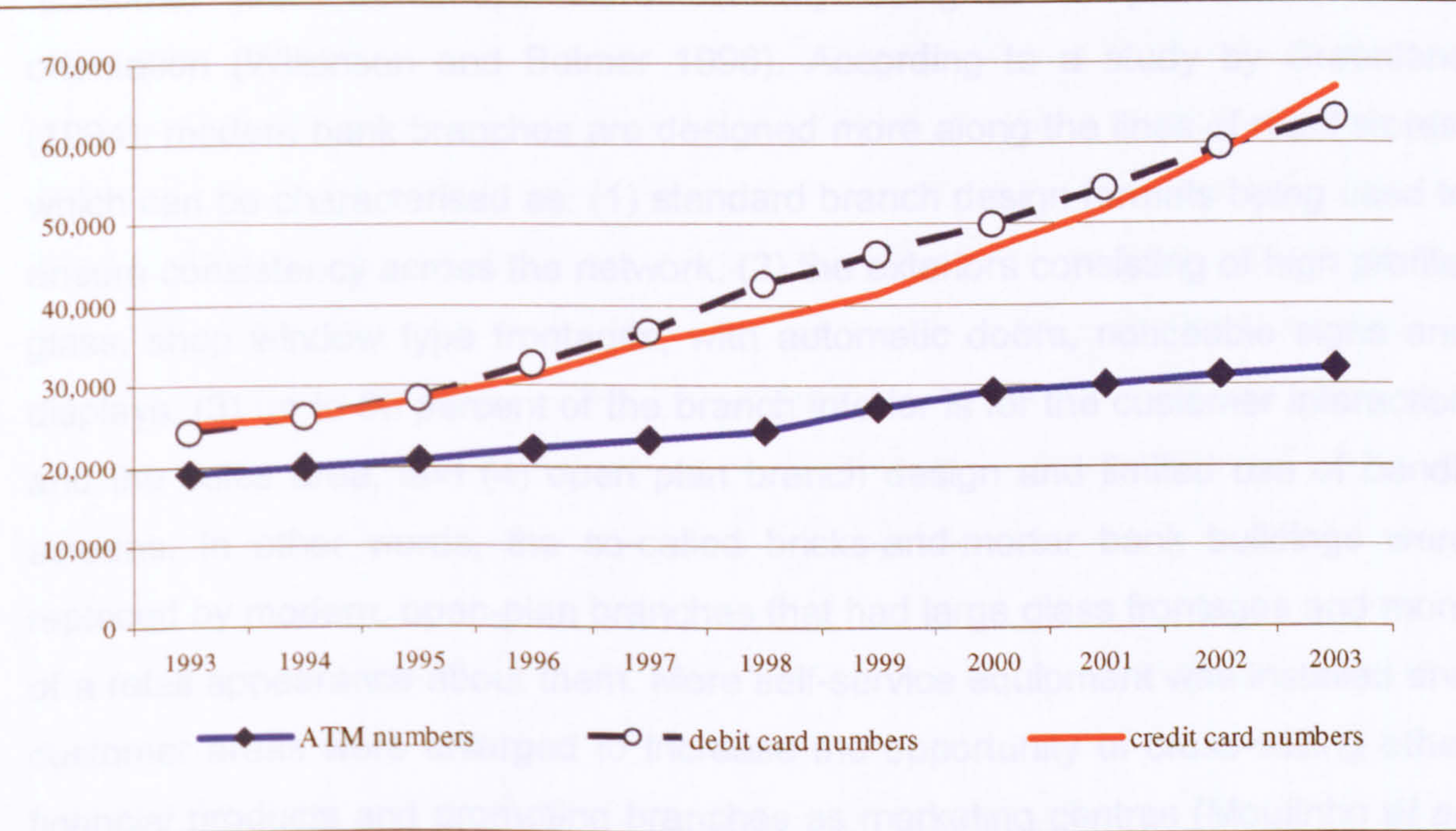
Payment methods

The main technological innovation in payment methods has been the introduction of payments by plastic cards (such as charge, debit and credit cards), which aimed

to reduce the cost of cheque-processing as well as combating cheque fraud. The latest innovation was the introduction of Chip and PIN in 2004 with the aim of dealing with plastic card fraud. The scheme was so well supported by UK banks, building societies and merchants that by the end of 2004, 77 million Chip and PIN cards were issued to 36 million cardholders (APACS 2005).

UK customer response to these new developments was slow in the early stages, yet accelerated in the 1990s. For example, in 1992 Midland's First Direct telephone banking service was acquiring 2,500 new customers a week, which was reported to be equivalent to the number of new accounts a new branch would attract in a year (McGoldrick and Greenland 1994). Similarly, payment by plastic was highly attractive to customers. Credit and debit cards reached 47 percent of high street spending in 2001, up from 19 percent in 1993 (CCRG 2002). Graph 5-2 illustrates the increasing number of ATMs, debit and credit cards in the UK market between the period of 1993 and 2003.

Graph 5-2 The number of ATMs, debit cards and credit cards in the UK from 1993 to 2003



Source: Compiled from APACS 2001 and 2004 reports. Plastic Card Review 2001, 2004.

Subsequently, the new deregulated environment combined with technological innovations led to a multitude of mergers, acquisitions, strategic alliances and joint ventures (Egan and Shipley 1995). This has contributed to a distortion of the

traditional sector boundaries, and heightened banking costs. It is reported that the retail banking sector currently suffers from overcapacity, therefore offering little room for expansion (Key Note 2003).

To overcome difficulties of expansion, cross-selling has been a major banking policy. In current banking practice, banking skills are closely associated with selling skills. The impact of cross-selling policies on banking can be observed through branch design and staff training programmes (Chaston 1995; Debling 1998; Key Note 2003). Bank branches used to be designed and built by property developers and without the influence of marketers (Greenland 1994). Since the late 1980s, it has been realised what an important role branch design could play in helping to fulfil marketing objectives. During this period, image building has started to emerge among financial providers as a way to differentiate themselves in a competitive market by “moving away from the position where a visit to the bank is only slightly preferable to a visit to the dentist” (Wilkinson and Balmer 1996:26). For example, the previous Midland Bank launched a new designer image which gave the bank the feel of a high street shop, while Lloyds TSB’s “customer first” workshops were similarly designed to promote customer orientation (Wilkinson and Balmer 1996). According to a study by Greenland (1994), modern bank branches are designed more along the lines of retail stores, which can be characterised as: (1) standard branch design formats being used to ensure consistency across the network, (2) the exteriors consisting of high profile, glass, shop window type frontages, with automatic doors, noticeable signs and displays, (3) up to 80 percent of the branch interior is for the customer interaction and the sales area, and (4) open plan branch design and limited use of bandit screens. In other words, the so-called bricks-and-mortar bank buildings were replaced by modern, open-plan branches that had large glass frontages and more of a retail appearance about them. More self-service equipment was installed and customer areas were enlarged to increase the opportunity of cross-selling other financial products and promoting branches as marketing centres (Moutinho *et al.* 1997).

From the UK bank customers’ perspective, the new deregulated environment increased their rights while technology and competition improved their choice of products and financial providers (Jayawardhena and Foley 2000).

Up to this point, the discussion has centred on interactions between financial institutions and their customers, i.e. service encounters. Now, the financial services literature is reviewed to investigate the role of planned marketing communications on customer relationships.

5.4.2 The UK Banking Sector and Planned Marketing Communications

Since the 1980s, financial institutions around the world have faced new challenges such as increased competition, deregulation, recession and image problems. Service providers embraced planned marketing communications, particularly advertising and sponsorship, as a way to overcome these difficulties (Albers-Miller and Straughan 2000; O'Loughlin and Szmigin 2005). In the rest of this section, these planned marketing communications are the focus of the research.

Advertising

The retail banking sector is among the heaviest advertisers in the UK. In 2002, £54.5 million were spent promoting general banking services (Key Note 2003). However, it seems that financial providers do not receive the maximum benefit from their advertising. There is some evidence that UK financial services advertising campaigns aiming to establish brand awareness are overwhelming, confusing and undifferentiated (Wilkinson and Balmer 1996). Moreover, banking advertising is criticised due to its focus on promoting new products and services to new customers. It is suggested that such advertising “may create a self-fulfilling situation in which companies seek to encourage customers to defect from rival companies, while doing little to prevent them defecting from their own” (Key Note 2002).

In the current research the financial services sector is restricted to banking institutions including banks and building societies. Key Note reports which are extensively used in this chapter have a broader definition of financial services sector including banking institutions as well as insurance companies. Since it was difficult to obtain data exclusively on banking institutions, a broader definition of financial services is adopted in this section. Looking at media advertising expenditure on current accounts, which is the product type concentrated on in this

research, Table 5-1 indicates that the eight leading financial brands spent over £17.5 million to promote their current accounts in 2006 (Key Note 2006a).

Table 5-1 Media advertising expenditure on selected current accounts (£000) as of March 2006

Halifax/Bank of Scotland (HBOS)	4,025
Barclays	3,242
First Direct (HSBC)	2,238
Smile (Co-operative Bank)	2,199
Abbey (Grupo Santander)	1,688
Lloyds TSB	1,590
Alliance & Leicester	1,312
HSBC	1,247
TOTAL	17,541

Source: Key Note Financial Services Report (2006a)

UK banking advertising has three main characteristics. Firstly, television is the most commonly used communication medium, amounting for 76 percent of promotions on general banking services (Key Note 2003). This is hardly surprising, given that 99 percent of the UK customers watch television regularly and report it as their most common leisure pursuit (Key Note 2005).

Secondly, although the television-based campaigns are predominant in the banking market, the banks have embraced all forms of media (Key Note 2003). The print media attracted 35 percent of financial services advertising in 2006, while 7 and 2 percent of financial services advertising were through outdoor and radio mediums respectively. However, the share of television and print media advertising is in decline (Key Note 2006a). Between 1994 and 2004, the share of total advertising expenditure for both media fell by 7 and 3 percentage points respectively. In contrast, internet advertising expenditure went up to 3.2 percent from nothing while direct mail increased by 3 percentage points to 13.4 percent in 2004 alone. Similarly, advertising through the media of outdoor and transport, radio and cinema all went up, yet by smaller percentages. According to a report by Key Note (2004), these trends can be explained by (1) cost considerations, and (2) a shift towards a more selective, rather than generic, targeting strategies.

Finally, advertising media are associated with certain objectives (Key Note 2006a). For example, radio, cinema, outdoor and transport advertising are mostly used to promote general services or to support brand awareness campaigns rather than communicating detailed product information. By comparison, a vital function of television and print advertising is that they are suitable to communicate brand building messages as well as product information messages. The use of mobile phone advertising is highly limited in the UK banking market, given the limited amount of information that can currently be delivered by text messaging (Key Note 2006a). Electronic advertisements are used to reach particular audiences and purposes such as promoting student accounts.

Corporate Sponsorship

Compared with other planned marketing communications, less is known about the involvement of banks in sponsorship activities. Sponsorship is predominantly used to establish brand awareness in the UK market. Total sponsorship expenditure more than doubled between 1994 and 1999. The UK banks and insurance companies lead the sponsorship market, accounting for nearly twice as many sponsorships as any other sector (Key Note 2006b).

UK customers are found to be particularly favourable towards companies which sponsor environmental concerns (85 percent) and charities (86 percent) (Key Note 2000). Despite customer preferences toward cause-related marketing, sports sponsorship dominates the sponsorship market (Thwaites 1995). According to Key Note estimates, the sports sponsorship is valued at £412 million while it is £220 million for arts and media sponsorship as the second highest (Key Note 2005).

Direct Marketing

The UK has demonstrated one of the fastest direct marketing growth rates in Europe. Throughout the 1980s, the impetus for market growth was the direct mail sector, accounting for 14.2 percent of all advertising media expenditure in the UK (Key Note 2004). The financial services sector is the greatest user of direct mail, with the majority of the top ten mailers occupying this sector. The interest in direct marketing by banks is primarily due to a much more competitive market in the wake of deregulation of the banking sector which has led to branch closures and staff redundancies. This meant that banks now need to provide other contact

points for their customers (Page and Luding 2003). In addition, due to the intense competition in the financial services sector, service providers have approached direct marketing as a tool to gain competitive advantage (Evans *et al.* 1996).

As stated early, direct marketing has reached a point where financial mailing accounts for 40 percent of the UK mailing volumes in total (Ridgway 2000). Direct mailing is believed to be at the core of financial services' planned marketing communications (Key Note 2002). UK financial institutions use direct mailing intensively in their promotions, nearly 650 million being sent out by banks and another 80 million by building societies. Yet, financial direct mailings achieve lower-than-average response rates for customer direct mail (Key Note 2004). Comparing mailings to potential and existing customers, mailings to existing customers have the best chance of success, achieving a response of 12.4 percent, while the response rate for mailing to potential customers is 9 percent on average (Key Note 2002).

The UK direct marketing sector faces some considerable challenges which could threaten the development of customer relationships, such as the inaccurate use of customer data which leads to mistargeting customers (Evans *et al.* 2001; Page and Luding 2003). According to industry sources, around 70 percent of personal records on databases have at least one inaccuracy or are duplicates (Key Note 2004). Moreover, the use of direct marketing mainly for customer acquisition (Ridgway 2000; Farquhar 2004) and cross-selling (Farquhar 2004) rather than customer retention are reported to be additional issues that need to be improved.

5.4.3 The UK Banking Sector and Customer Relationships

Now, focusing on what this new banking environment and practices mean for customers, firstly the main impetus behind the rationalisation of the branch network and subsequent adoption of new delivery channels was cost related rather than customer-oriented (Howcroft and Durkin 2000; Durkin *et al.* 2003). In a recent empirical study, UK banks are found to have a tendency to regard technology as a way of increasing transaction banking efficiency rather than as a means of improving customer relationships (Durkin and Howcroft 2003). It is interesting that, despite vigorous attempts by banks to shift branch customers

towards the use of electronic channels, even bank managers view the branch as a key facilitator in managing customer relationships (Durkin and Howcroft 2003). Therefore, it does not come as a surprise that UK retail bank customers, similarly, place significantly more importance on the face-to-face contact than on remote banking (Moutinho *et al.* 1997; Durkin *et al.* 2003). In addition, UK bank customers are found to derive higher levels of trust from branch interactions than alternative channels (Howcroft *et al.* 2003). The “need for a real person” is still a valid phenomenon in UK banking, and interactions at the branch level are found to be preferred by customers irrespective of age and social class particularly when purchasing specialist banking services such as insurance products or financial advice (Howcroft *et al.* 2003). While the branch network is stated as offering “socially-based personalised delivery systems”, new delivery channels are viewed as impersonal, reducing the opportunity for social interchange, and resulting in relationships which are “remote” (Howcroft and Durkin 2000). There is some evidence that different delivery channels are associated with the management of different financial services (Howcroft *et al.* 2003; Key Note 2003), and customers desire a combination of both traditional and new delivery channels in a complementary way (Moutinho *et al.* 1997; Durkin *et al.* 2003; Durkin and Howcroft 2003).

Therefore, it can be stated that UK banks need to revisit their communication strategies if customer relationships are to be improved. By introducing low contact alternative delivery channels and centralising or outsourcing banking operations, the UK banks were aiming to shift customers away from branches to new cost-effective delivery channels. However, UK retail bank customers do not regard these new channels as an acceptable alternative to branch banking due to the lack of face-to-face contact (Durkin *et al.* 2003). So, contrary to the banks' expectations, traditional and new delivery channels are not regarded as mutually exclusive or substitutable by customers.

With regard to the planned marketing communications, the UK banks embrace multiple promotional strategies, which is likely to encourage communicating with a wide range of customers. Furthermore, a shift towards internet advertising and direct marketing could improve communication with the customer, owing to their ability to allow better targeted communication strategies. Customers' high level of

awareness, and receptivity to some extent, of planned marketing communications practices can be used as a basis for facilitating customer relationships.

To conclude, the UK financial sector is an industry which is characterised by intense competition for market share and rapid adoption of alternative distribution and communication channels (Egan and Shipley 1995). In this competitive environment, relationship marketing is viewed as a key tool in achieving business profitability (Dibb and Meadows 2001). One of the key challenges that the UK banking sector currently faces is how to provide a cost-efficient system while addressing customers' needs for face-to-face contact. Addressing this issue of customer satisfaction is crucial if sustainable customer relationships are to be maintained. Cost-reductions in the sector have been achieved through branch closures, merging, downsizing, centralising operational and customer services, substituting banking staff with self-service technologies and contracting out certain banking operations to third parties (Ahmad 2005). However, the branch is far from dead; instead its image and role have evolved throughout the years (Moutinho *et al.* 1997). At the same time, alternative delivery channels are increasing in popularity (Howcroft and Durkin 2000). Banks need to pay attention to the balance between being cost-driven and customer-oriented. A long-term perspective to customer relationships needs to be taken; otherwise banks are in danger of losing their customers:

Increased competition and developments in new delivery channels are commoditising bank products and changing consumer behaviour by increasing consumers' propensities to switch. (Beckett *et al.* 2000:24)

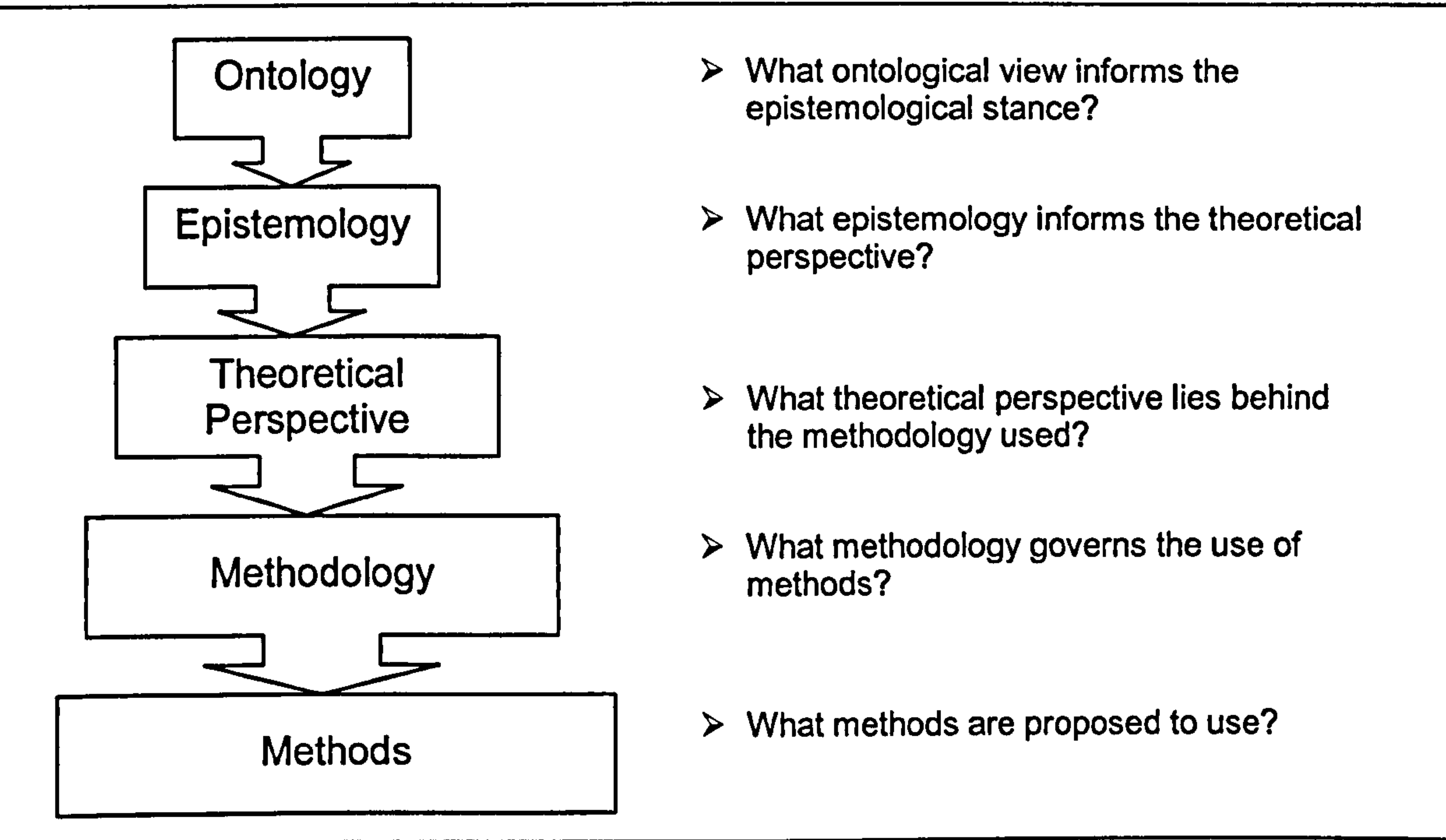
Such an approach to banking raises important questions for the development of bank-customer relationships (Durkin and Howcroft 2003). Therefore, a key issue challenging UK retail bank managers today is how to establish relationships with their customers and maintain such bonds thereafter (Ahmad 2005).

5.5 METHODOLOGICAL ISSUES

5.5.1 Philosophy of the Research Design

The methodological choices for this research can be located within broader debates on the philosophy lying behind the research. In this regard, five elements of research informing one another can be focused on as illustrated in Figure 5-3.

Figure 5-3 Five elements of a research process



Source: Adapted from Crotty (1998).

Crotty (1998) presents a detailed insight into the five elements of the research process. The starting point of the research process is stated to be ontology which is about assumptions on the nature of reality as viewed by the researcher (Easterby-Smith *et al.* 2002). The ontological view of the researcher informs the epistemological stance adopted. In other words, ontology is the approach taken towards the nature of reality while epistemology is about how to discover or construct that reality. Epistemology, which is inherent in the theoretical perspective and the methodology, frames the general set of assumptions about the best ways of expanding existing knowledge. How knowledge can be expanded and whether meaning is discovered or constructed are related to the epistemological stance adopted. Similarly, the theoretical perspective is the philosophical stance that lies behind the chosen methodology. Inevitably a number of assumptions are brought into the chosen methodology, which is influenced by the theoretical perspective of

the researcher. On the other hand, methodology governs the combination of techniques used, such as the research strategy, action plans and processes, and informs the choice and use of particular research methods. Finally, methods are the individual techniques or procedures used to collect and analyse data related to research questions or hypotheses. It is argued that these five elements help to increase the rigour of research by enabling the researcher to clarify research designs and justifying why certain methodologies and methods are employed in the process.

A number of philosophical research traditions have emerged with varying degrees of contrasting views. Two traditions with the most polar views of how social science research should be conducted are positivism and social constructionism (Easterby-Smith *et al.* 2002; Hammersley and Atkinson 2002). Within the positivist tradition, it is assumed that there is one objective truth which exists independently of the researcher. The researcher's aim is, in a broad sense, to identify this existing reality. From the positivist perspective, the most commonly applied methods of discovering this reality are through experiments and/or surveys, and the quantitative forms of analysis associated with these data collection methods (Hammersley and Atkinson 2002).

In social constructionism, it is argued that people have multiple realities, and these are all valued. In this tradition, knowledge is viewed as socially constructed and may change depending on circumstances. Therefore, constructing the social world by simple causal relationships or investigating social events through universal laws is rejected (Hammersley and Atkinson 2002). The aim of the researcher, then, is to understand how people construct their realities and make sense of what is going on around them. The use of language and conversations between people derived from methods such as interviews, recordings and/or observations are focused on generating a deeper understanding of people's realities (Golafshani 2003).

The current research is about understanding people's experiences. It is assumed that people have their own realities and meanings attached to events surrounding their environments, which would be difficult to understand through experimental designs or surveys. In other words, the position taken in this research is closer to social constructionism. This perspective is the philosophical stance lying behind

the methodology chosen. Therefore, in choosing an appropriate methodology, the focus was how to obtain a deeper understanding of people's own realities in a robust way.

5.5.2 Quantitative and Qualitative Research Methods

Positivism is associated with the use of quantitative research methods while qualitative research methods are associated with the social constructivist tradition.

Both quantitative and qualitative methods have their uses (Easterby-Smith *et al.* 2002). Quantitative methods can be fast and economical due to the use of large samples, and therefore they can provide a wider coverage of the phenomena studied. Another important feature of quantitative methods is the strict separation of data collection and analysis stages. Quantitative information can be gathered through questionnaires, tests/measures, observations or from archives and data banks.

In comparison, qualitative methods offer to develop insight and understanding into people's lives, and are able to adjust to new issues and ideas as they emerge (Szmigin 1997; Patton 2002). With respect to data collection methods, in-depth interviewing, critical incident technique, repertory grid technique, projective techniques, protocol analysis, group interviews and diary methods are commonly applied qualitative methods. While quantitative methods mostly seek causal associations and relationships, and are concerned with the generalisability of research findings, qualitative methods are more exploratory in nature and seek to understand phenomena in context-specific settings (Crabtree and Miller 2000).

The purpose of this research was to investigate the impact of marketing communications on customer relationships. As discussed in the previous chapters, this area has received limited research interest in the marketing literature, thereby calling for an exploratory research approach. As a result, a primarily qualitative approach was deemed appropriate, which is largely concerned with learning about the experiences of others (Szmigin 1997) with the benefits of probing for deeper insight (Debling *et al.* 2000; Easterby-Smith *et al.* 2002).

5.6 RESEARCH DESIGN

In this section the methodological approach taken in the research design is first explained. Then, it is discussed why semi-structured interviewing was appropriate for the research, followed by discussions on the interview schedule and background questionnaire. Finally, two sets of pilot studies, which contributed significantly to the development of the research design, are presented.

5.6.1 Deductive Approach

Some qualitative researchers argue for a totally open-minded and hence inductive approach to the research process (Strauss and Corbin 1998). A second group of researchers indicate that, while one should enter the field with an open-minded approach, it is impossible not to have some ideas of what one is looking for (Miles and Huberman 1994; Szmigin 1997). In this research, the field work started with a number of questions derived from the literature findings (as discussed in Section 5.6.3). Thus, adopting a position closer to the second group of researchers, a tighter design was adopted.

In the deductive approach, a template or codes are constructed a priori, based on prior research or theoretical perspectives or created on preliminary scanning of the research text (Crabtree and Miller 2000). The conceptual framework which was developed based on prior research presented in Section 5.2 (p:81) was used as a template in the research process. The use of the framework facilitated the development of a relationship typology and set the focus on the communication aspect of relationships.

In short, the use of a deductive approach set the boundaries of the research. In addition, the utilisation of a semi-structured interview approach allowed the researcher to be open-minded towards the emergence of new or unanticipated insight during the data collection and analysis stages.

5.6.2 Semi-Structured Interviewing

Having decided to conduct qualitative research, the choice of techniques and procedures to employ in the process was inevitably shaped by the approach taken. Qualitative research is primarily associated with techniques such as

interviews and diary methods (Strauss and Corbin 1998; Easterby-Smith *et al.* 2002; Hammersley and Atkinson 2002; Patton 2002). Of these, the most fundamental qualitative method is reported to be in-depth interviewing (Easterby-Smith *et al.* 2002), which can be in the form of semi-structured or unstructured interviews. The primary purpose of in-depth interviewing is to gain an understanding of individuals' opinions, beliefs, feelings and experiences, and the meanings they attach to these constructs (Crabtree and Miller 2000; Patton 2002). Qualitative research interviewing takes place in contexts that are not fully structured in advance by the researcher (Easterby-Smith *et al.* 2002). Due to the nature of in-depth interviewing, this method is believed to facilitate the exploration of relationship dynamics (Laing and Lian 2005). In addition, in-depth personal interviews are preferred over other data collection methods due to their ability to build depth and intimacy (O'Malley and Prothero 2004), particularly in the case of gathering sensitive financial data (O'Loughlin and Szmigin 2005).

Hence, in this research in-depth interviewing was chosen as the data collection technique. Since the purpose of the interviews was to understand customers' banking experiences from a number of perspectives (as outlined in the interview schedule), semi-structured interviewing was an appropriate technique for this purpose. By employing semi-structured interviewing, participants were encouraged to explain, in their own words, their viewpoint of the current relationship with their financial institutions. Since multiple account holding is a characteristics of the UK financial sector (APACS 2004), a focal institution needed to be specified. Participants were invited to talk about a bank, building society, credit union or other financial institution that they use for most of their personal banking needs. This was then considered to be the participant's main bank. The term "bank" is used throughout the research to refer to a banking institution or building society. Most of the questions in the interview schedule focused on the relationship between the participant and his/her main bank. To establish clarity, at the beginning of the interviews, it was explained to participants what was meant by the "main bank".

5.6.3 Interview Schedule

An interview schedule for this research was developed, based on an extensive literature review of previous research in the field. A list of questions relating to the research objectives, and derived from research findings, was produced and used as an interview guide. The complete interview schedule is presented in Appendix 1. The schedule, including general themes and follow-up questions and probes where necessary, was composed of two main parts, as discussed below.

(i) The first part of the interview schedule

The first part of the interview schedule aimed to answer the first research question outlined in Section 5.3:

Q1. What types of relationships can customers form with their financial institutions?

In other words, understanding the nature of the relationship the participant had with his/her main bank was the primary focus of this part. Seventeen questions (from Q1 to Q17) were designed to produce insight in this regard. All the questions were open-ended and the participant was able to express his/her opinions and experiences freely. The interview schedule aimed to identify the type of relationship that the customer was having with his/her financial services provider, based on the four fundamental relationship components as illustrated in Figure 5-1 (Section 5.2).

Trust in relationship partner

Starting with the trust part of the schedule, six open-ended questions (Questions from 7 to 12) were designed to understand the type of trust the participant had towards his/her main bank: calculus-based trust, knowledge-based trust or affective trust. Table 5-2 presents research papers that have been used as a basis for designing each of these questions.

Table 5-2 Questions relating to “trust in relationship partner”

Questions:	The source of the questions:
Q7 What does trust mean for you when it comes to banking with BankX?	Liljander and Roos (2002) Doney and Cannon (1997) Morgan and Hunt (1994)
Q8 Do you believe BankX is trustworthy? Why?	
Q9 What can you say about the reliability of your bank?	
Q10 What can you say about the honesty of BankX towards its customers?	
Q11 Do you think BankX has your best interests in mind? Can you give me some examples?	
Q12 Do you think BankX has any other positive or negative qualities that have influenced your experience with them?	

Question 7 was designed based on a recommendation by Liljander and Roos (2002), which was about starting interviews with participants’ perceptions of the given phenomenon. Questions from 8 to 11 were informed by Doney and Cannon (1997) and Morgan and Hunt (1994). Doney and Cannon (1997) measured the trust concept in their questionnaire by asking study respondents (all of whom were members of the National Tire Dealers and Retreaders Association) their opinions on their supplier firms on a number of aspects such as whether the supplier firm (1) is trustworthy, (2) keeps its promises made to the customer, (3) is always honest, (4) is genuinely concerned that the customer’s business succeeds, and (5) keeps the customer’s best interest in mind. Similarly, Morgan and Hunt (1994:23) conceptualised trust as “when one party has confidence in an exchange partner’s reliability and integrity”. Morgan and Hunt also noted that trust is associated with qualities such as consistency, competency, honesty, fairness, being responsible, helpful and benevolent. Question 12 was designed in light of this note from Morgan and Hunt.

Relationship commitment

Regarding the relationship commitment part of the schedule, Questions 1, 2, 4 and 5 had the aim of revealing participants’ future intentions concerning their banks. Table 5-3 lists research papers that have been used as a basis for designing the commitment questions.

Table 5-3 Questions relating to “relationship commitment”

Questions:	The source of the questions:
Q1 What do you think about BankX compared with other banks or building societies? Any negative or positive aspects?	Liljander and Roos (2002) Wetzels <i>et al.</i> (1998) Morgan and Hunt (1994) Dwyer <i>et al.</i> (1987)
Q2 Is your experience with BankX a satisfactory or dissatisfactory one?	
Q4 Do you tend to buy most of your financial products from BankX? Why?	
Q5 Do you intend to continue to bank with BankX in the future? Why?	

A study by Liljander and Roos (2002) informed Questions from 1, 2 and 4. With the purpose of developing an insight into customer relationships, Liljander and Roos interviewed a number of customers of five car-repair and maintenance shops. They interpreted study participants’ continuance and affective commitment by asking the following questions: (1) perceived service superiority of the regular service provider compared to alternative providers, (2) customers’ satisfaction levels based on the experience with the provider, (3) number of products bought from the provider, (4) dealing with the same service employee when contacting the provider and (5) switching behaviour. Question 5 was informed by a number of studies which commonly define relationship commitment as an intention to continue the relationship into the future (Dwyer *et al.* 1987; Morgan and Hunt 1994; Wetzels *et al.* 1998).

Buyer-seller bonds

In terms of the buyer-seller bonds, two open-ended questions were designed from the literature review. The first one was about understanding what was keeping the participant banking with his/her main financial institution. This question was set up to be part of Question 2, which was about the participant’s level of commitment towards his/her bank. The next question (Question 6) was about understanding how the participant felt about switching his/her bank account to another provider. Both questions were based on a description of the buyer-seller bonds by Liljander and Roos (2002).

Relationship benefits

Regarding relationship benefits, Table 5-4 presents three questions (Q3, Q13 and Q14) designed specifically to disclose the nature of benefits, if any, participants perceived to be receiving from their banks. These questions were informed by a discussion of the concept of relationship benefits in a well-cited study by Gwinner *et al.* (1998).

Table 5-4 Questions relating to “relationship benefits”

Questions:	The source of the questions:
Q3 Does BankX offer you any kind of benefits specifically as a result of being a regular customer?	Gwinner <i>et al.</i> (1998)
Q13 Based on your experience with BankX, how easy or difficult do you find the management of a bank account?	
Q14 Do you feel that BankX impacts, in any way, on your confidence in managing a bank account?	

The final section in the relationship marketing part of the schedule was related to understanding the proneness level of the participants to establish a relationship with a financial institution. In this respect, three questions (Q15, 16 and 17) were designed as presented in Table 5-5. These questions were developed from a theoretical discussion of the concept of relationship proneness by Bove and Johnson (2000) as well as a measurement scale developed by de Wulf *et al.* (2001).

Table 5-5 Questions relating to “customer relationship proneness”

Questions:	The source of the questions:
Q15 When it comes to your financial needs, do you like to be a regular customer of one bank or building society, or do you prefer banking with a number of institutions? Why?	de Wulf <i>et al.</i> (2001) Bove and Johnson (2000)
Q16 Would you generally be willing to make an extra effort to bank with the same institution for all your financial needs? Why?	
Q17 In general, what do you think about bank staff chatting with their customers during the service encounter?	

(ii) The second part of the interview schedule

The second part of the schedule had two main objectives. Firstly, it aimed to explore the nature of marketing communications taking place between banks and their customers. The second objective was to understand how, if any, such communication impacted on the relationship between the participant and his/her bank. In other words, this part of the schedule aimed to answer the second and the third research questions specified in Section 5.2:

Q2. How, if any, can planned marketing communications impact on the type of relationship between financial institutions and their customers?

Q3. How, if any, can service encounter interactions impact on the type of relationship between financial institutions and their customers?

To this end, eight types of marketing communication activities were identified from a seminal study by Grönroos (2000a) as (1) advertising, (2) direct marketing, (3) sponsorships/events/affinities, (4) interactions with bank staff, (5) branch/web site/statement designs, (6) product features, (7) word-of-mouth and (8) media coverage. Since the meaning of these concepts may differ from one individual to another, eight visual prompts referring to what the researcher meant by each of the activities was presented to the participant at the outset of the interview (Appendix 2). The use of prompts improved the validity of the data. The prompts were introduced after the first pilot interviews. The first set pilot study indicated that the marketing communications part of the interview schedule was under-emphasised, therefore offering limited insight into the communication aspect of relationships. For example, before the development of prompts, most research participants limited advertisement activities to television campaigns, hence limited the scope of advertising. The use of prompts improved the validity of the research by broadening the scope of the marketing communications concept, and facilitating the recall by participants.

In this second part, referring to each of the eight activities, the researcher asked three questions presented in Table 5-6, with the purpose of exploring the impact of each of the marketing communications on the participants' banking relationships.

Table 5-6 Questions relating to marketing communications activities

Q18	Which of these eight marketing communications activities do you experience with BankX?
Q19	What is it that you like/dislike in such communication activities with your bank? Why?
	Have any of these communication messages impacted on your thoughts about BankX? If yes, can you give me some details?
	<u>Prompts:</u>
	a. satisfaction level with BankX?
	b. decision to buy new products or services from BankX?
	c. intention to stay with BankX in the future?
Q20	d. thoughts about switching account(s) with BankX to somewhere else?
	e. perception of trustworthiness of BankX?
	f. perception of reliability of BankX?
	g. perception of honesty of BankX to its customers?
	h. perception that BankX keeps its customers' interest in mind?
	i. perception of outstanding qualities that BankX has?
	j. confidence in managing a bank account?

5.6.4 Background Questionnaire

Along with the interview schedule, a background questionnaire, as presented in Appendix 3, was designed as a data collection tool. One purpose of the questionnaire was to identify demographic characteristics of participants, including age and income ranges, marital status, education level, occupation and the sector employed in (if applicable) (Questions 4 to 9).

In addition, the background questionnaire gathered data on whether the participants held any banking products with other financial institutions and, if so, what products were held (Question 1). Although the focus of this research was on the relationship with a main bank, other relationships with similar types of organisations are stated as being likely to impact on this focal relationship (Edvardsson and Strandvik 2000). However, at the analysis stage the emphasis was decided to be kept on the focal relationship. Therefore, these data were not used in the research process.

Finally, the background questionnaire included two questions inviting respondents to provide some factual information regarding the style of communication with their banks (Questions 2 and 3). Since these questions were quite straightforward and did not require further probing, they were included in the background questionnaire.

Due to the qualitative nature of the research, participants were asked to write down the answers in their own words without being forced into pre-specified categories. Questions 8 and 9 were the only exceptions to this. These questions were about the age and income of participants. Due to the sensitivity of such data, participants were requested to tick a pre-specified category rather than writing down the exact figure.

In deciding age categories, 18 years old was used as the starting point. According to the industry sources, a person needs to be 18 years old or over in order to be able to apply for a bank loan, cheque book or a credit card as well as some types of debit cards (British Bankers' Association 2005).

5.6.5 Three Sets of Pilot Studies

Three sets of pilot studies helped the development of the research process by offering insight in a number of aspects as explained in the following sections.

(i) The first pilot study

Eight pilot interviews were carried out from the 23rd January to the 17th February 2005, which lasted over five hours altogether, or 43 minutes each on average. As acquaintances of the researcher, the access to the interviewees was relatively easy. They were sent emails by the researcher explaining the purpose of the research and asking for their contribution. Six of these participants were from the Open University. Since they were pilot studies which aimed to test the interview schedule, and to elicit opinion on the content and wording of the research instrument, this recruitment method was deemed to be acceptable.

As presented in Appendix 4, five males and four females participated in the first pilot study, distributed from the ages of 20s to the 50s. They had a good range of banking products, had held an account(s) with their main banks for a number of years, ranging from 3.5 years to over 31 years. Except the last interview, all the interviews were fully transcribed by the researcher, and the text was analysed. Similar themes emerged from the last interview in comparison with the previous ones; hence the last interview was partially transcribed.

In these early stages, the critical incident technique was the main method of collecting insight into participants' banking experiences. As a well-established qualitative method going back to 1950s (Flanagan 1954), critical incidents are reported to "represent a window to observe aspects of customer relationships that normally cannot be explicated" (Edvardsson and Strandvik 2000:83). In these early stages of the research, it was planned that, by concentrating on critical incidents at the service encounter, respondents would be encouraged to tell stories in their own words about their experiences with their financial institutions.

The eight pilot interviews contributed to the development of the research by enabling the researcher to reflect on the questions (Appendix 5) and the recruitment of participants as well as revising the research method employed. The first set of pilot studies can be summarised to have been valuable from two main perspectives. Firstly, at the end of the preliminary analysis, it was found that the critical incidents technique was an inappropriate method for the purpose of this research. Customers did not necessarily need to have discrete occurrences to establish a relationship. Restricting the research to critical incidents limited the scope of the relationship typology. Therefore, the research methodology evolved, and subsequently the interview schedule was modified to a great extent.

Secondly, the marketing communications part of the schedule appeared to be under-emphasised, therefore offering insufficient data into the communication aspect of relationships. It was after this revision that the eight marketing communication prompts (Appendix 2) were developed.

In parallel with the interview schedule, the background questionnaire was piloted (Appendix 6). As a result of the shift from critical incidents technique to in-depth interviewing, the background questionnaire needed to be redesigned.

(ii) The second pilot study

With the aim of testing the revised interview schedule and eliciting opinion on the content and wording of the new schedule, five more pilot interviews were carried out from the 13th to the 17th June 2005. Four of these participants were acquaintances of the researcher while one participant was recruited through

snowballing. Three participants worked at the Open University while two were from outside the Open University. As presented in Appendix 7, the participants had diverse backgrounds in terms of age groups, income levels, banking experiences and the use of financial products. The interview schedule used to elicit data from these participants is illustrated in Appendix 8. The interviews revealed that the trust part of the interview schedule needed to be modified. The data collected appeared to be far too general; and it was difficult to identify the type of trust the participant had in his/her bank from these questions. Therefore, the trust literature was revisited and the trust questions further developed, as presented in Table 5-1 in Section 5.6.3.

Regarding the redesigned background questionnaire (Appendix 9), it seemed to be appropriate for the purpose of the research. However, according to the participants' comments, the questionnaire needed to be shortened.

(iii) The third pilot study

The refined interview schedule (Appendix 1) was piloted with four further participants from the 20th to the 24th June 2005. Three of these participants were acquaintances of the researcher while one interviewee was recruited through snowballing. One participant worked at the Open University while three were from outside the Open University. As presented in Appendix 7, the participants had varied backgrounds in terms of age and income groups, and held a number of financial products with financial institutions. The purpose of the third set of pilot interviews was to ensure that the interview schedule reflected the complexity of relationships with financial institutions. The interviews indicated that this time much richer data and better insight into participants' banking experiences were obtained. Questions in the refined schedule appeared to be clear and understood correctly by the participants.

With relation to the background questionnaire, the pilot interviews revealed that the updated version (Appendix 3) was sufficiently short, clear and easy to complete, with no objections from the participants to answer any of the questions.

5.7 PARTICIPANT RECRUITMENT AND INTERVIEWING PROCESS

In this section the sampling strategy is first discussed, along with the rationale behind the strategy. Then, the two main data recruitment methods employed in the research, which were advertising and snowballing techniques, are discussed. The section concludes with a thorough review of the interviewing process.

5.7.1 Sampling Strategy

The qualitative research literature argues that the key in qualitative sampling should be theoretically driven, either on the basis of existing theory or one to emerge (Miles and Huberman 1994). Therefore, the choice of informants or incidents tends to be purposive rather than random. In exploratory studies, variety rather than representativeness is more important in order to reach a broad view of meanings (Sykes 1991). As a result, qualitative research has come to be associated with purposefully selected small numbers, and not necessarily representative of a particular target population (Sykes 1990).

There is an ongoing debate in the qualitative literature over the trade-off between scale and depth (Szmigin 1997). Griggs (1987) and Miles and Huberman (1994) support the view that it is not necessary to use large samples to prove a point; instead reliable and valid conclusions can readily be drawn from samples between 20 and 50. In addition, it is suggested that one should look for maximum variation in sampling, representing a range on the theoretical dimension of the research interest (Sykes 1990; Patton 2002; Madden and Perry 2003). This should increase confidence in the research findings (Patton 2002).

Following this argument, the sampling frame was structured in order to reflect the viewpoints of a varied range of bank customers according to four specific criteria. The first two were the gender and age range of participants. The third criterion was related to financial institutions. Every financial institution has its own strategies in establishing relationships and communicating with customers. Talking to customers from a wide range of banks would facilitate the development of a relationship typology. With the same purpose, the fourth criterion was the length of time with the main bank. Such a classification is in parallel with similar research practices in the marketing domain (e.g., Szmigin 1997; de Wulf *et al.* 2001).

A total of 38 in-depth interviews was conducted with individuals, who were of particular interest to the research question, from October 2005 to January 2006. The aim of the sampling strategy was not to be statistically valid or exhaustive. The choice of sample design was informed by providing maximum theoretical understanding of the research interest rather than reaching a representative sample of the population (Miles and Huberman 1994; Patton 2002). The recruitment of these participants was facilitated through the use of advertising and snowballing methods.

5.7.2 Advertising Technique

The main participant recruitment method was through advertising, which resulted in recruitment of 23 participants. Advertising is stated as an appropriate research method to reach a diverse range of customers (Bloemer and Kasper 1995).

Advertising in a local newspaper, the MK Citizen, was the primary recruitment method chosen in this research. Since the paper is distributed to over 100,000 people in the MK postcode area it was considered likely to provide an adequate coverage for the research. In the recruitment advert which was published in September 2005 (Appendix 10), participants were invited to talk about their banking experiences. Customers who were willing to participate could respond either by email, telephone or through the post. Nineteen participants were recruited through this advert in the MK Citizen.

In order to capture people with a wide range of demographic backgrounds and to be able to reach a large number of potential participants, the local paper advert was supported with a number of other advertising strategies. To this end, adverts were placed in various locations ranging from leisure centres to village halls and libraries for the duration of approximately one month (Table 5-7). Travelling to these locations and negotiating the display of the advert were conducted by the researcher.

Table 5-7 The number and nature of locations where the recruitment adverts were published

Number of places	Nature of the place
1	Local newspaper (one issue)
1	Community newsletter (one issue)
2	Post offices (those ones operating with part of a local shop are categorised under “local food shops”)
2	College/University electronic notice boards
3	Public notice boards on street in town
5	Leisure and/or entertainment centres
7	Community centres; town/village halls
8	Parish councils
8	Local libraries
15	Local food shops
52	TOTAL NUMBER OF PLACES THE ADVERTS DISPLAYED

Due to resource constraints, the advert in MK Citizen was published only in one issue, and the local displays were limited to the Buckinghamshire area in the UK. Since this is an exploratory research with no intention to generalise to a wider population, such a research design can be considered as an acceptable one, yet with implications on the research findings, as is discussed in Chapter 9.

5.7.3 Snowballing Technique

Snowball sampling was employed as a secondary data collection method in order to increase the number of participants. In snowballing, people are asked to identify other people who would be interested in participating in the research according to some inclusion criteria that are of research interest (Robson 2002). Snowball sampling is useful when there is difficulty in reaching potential participants (Biernacki and Waldorf 1981).

The sensitive nature of financial data (O'Loughlin and Szmigin 2005) may have prevented individuals from responding to the research adverts, therefore keeping the response rate low. Snowball sampling is considered likely to eliminate the concern that potential respondents might have, and facilitate the recruitment process (Robson 2002). This is because in this method potential participants are reached through a known and/or trusted person.

In snowballing, participants who were recruited through advertising and friends/acquaintances of the researcher were asked to refer one individual who met the inclusion criteria. These criteria aimed to achieve coverage across age, sex and the level of experience with financial institutions. This was an iterative process, and the criteria kept changing based on the characteristics of the participants already interviewed. Eventually, 15 participants were recruited through snowballing. All of them were recommended by friends/acquaintances of the researcher. It was important that no prior relationships existed between the researcher and the research participants in order to avoid data contamination. Although friends/acquaintances helped in the recruitment of the 15 participants, the researcher had not met any of these participants beforehand.

By mixing such data collection methods, the goal was, firstly to increase the number of participants, and secondly to capture a wide array of customer experiences, and also to help to validate the research findings (Robson 2002) as is discussed in Section 5.10.

5.7.4 Interviewing Process

The purpose of the interviews was two fold: firstly to identify the type of relationship the participant had with his/her main financial institution, and secondly to explore the impact of marketing communications on this relationship format.

Each interview was audio-taped with the permission of participants. The tone of the interviews was informal and conversational. However, the separate roles of the researcher and researched were maintained.

In order to minimise the drop out rate, all the interviews were scheduled soon after the potential participant contacted the researcher. In addition, shortly before the interview date all the participants were sent or e-mailed a reminder of the interview date and place along with a copy of the informed consent form (Appendix 11) and directions about how to get to the interview venue.

Prior to each interview, participants were asked to fill in a brief questionnaire (Appendix 3). The interviews were also supplemented with notes taken by the researcher before, during and after the interview (Ulaga 2003). In addition, the

informed consent form was obtained. Then, interviews started with a brief statement of the research purpose and assurances of data anonymity, together with some outline of how the interview was expected to proceed. Such an introduction was crucial to this research primarily because it dealt with financial services. Customers regard questions about financial matters as highly intrusive (Szmigin 1997). Hence, participants needed to be assured that no sensitive data would be asked and they were free not to answer any questions they felt to be intrusive or sensitive. Moreover, participants had to be assured that the research had purely academic purposes, and was in no way linked to any commercial organisation.

Establishing a rapport with participants is an essential matter in qualitative interviewing primarily for the quality of the data (Hammersley and Atkinson 2002; Patton 2002). Within a fairly short time, the researcher had to ensure that the participant felt comfortable in talking about his/her financial experiences and was not inhibited from referring to situations where they were in debt or under some kind of financial pressure. The introduction was an important stage in this process.

All participants were asked the same questions in roughly the same way. Respondents were asked for clarification or expansion of the topic for any apparent inconsistencies. Despite the standardisation of the interview process, there was some flexibility for the researcher to ask optional questions, pass on others, and depart briefly to follow unexpected paths. The idea here was that experiences and backgrounds vary among participants, and the qualitative interviewer should have the discretion to pursue issues relevant to the research topic or to pursue new issues altogether if felt relevant (Cornelissen and Thorpe 2001).

Some participants were interviewed at the Open University campus in Milton Keynes while others were interviewed at their homes or places of work. In order to minimise interruption, interviews which were set up at the Open University campus were carried out in meeting rooms. For those that were set up in the participants' own environment, they were requested to arrange a quiet office/room for the interview.

At the end of the interview, firstly, the participant was asked whether he/she would like to add other aspects of their banking experiences to the conversation, and then he/she was thanked for the contribution to the research. Secondly, the participant was asked whether he/she could recommend the research to one person who might wish to participate. A number of leaflets specifying the purpose of the research and contact details were given to the participant for him/her to distribute amongst their social network (Appendix 12). Thirdly, travel expenses were reimbursed. As a final point, all participants were given a small gift (a ball point pen) as a thank you for their time and for sharing some parts of their life experiences with the researcher. Owing to ethical considerations, this was not publicised in adverts in advance, and was disclosed only at the end of interviews. The purpose was to minimise the potential impact of the gift on the nature of data presented by the participants (Hammersley and Atkinson 2002).

5.8 PROFILE OF PARTICIPANTS

The participants of the research were comprised predominantly of residents from Buckinghamshire area with some exceptions, as listed in Table 5-8.

Table 5-8 The distribution of 38 research participants as of places they live

Number of participants	Where did the participant live (at the time of interview)?
27	Milton Keynes (Buckinghamshire)
2	Olney (Buckinghamshire)
2	Stoke-on-Trent (Staffordshire)
2	Corby (Northamptonshire)
1	Kettering (Northamptonshire)
1	Watford (Hertfordshire)
1	Oxford (Oxfordshire)
1	London
1	Ceredigion (Wales)

In addition to the location, participants were also from a variety of ethnic backgrounds. Five of the 38 participants were foreign nationals; one was African, one Chinese, one French, one Greek and one Pakistani. In accepting these foreign nationals an additional criterion was used, which was that they had been living in the UK for the last five years or more. The purpose of this was to ensure

that they were familiar with the UK banking system and therefore would be able to provide rich data for the research. Employing such a variety of settings would improve confidence in the research conclusions (Miles and Huberman 1994) by its likelihood of representing a wider range of relationships, although this may have some implications due to cultural variety. For example, in some cultures business relationships may resemble a personal relationship, whereas in other cultures the boundaries between personal and business relationships could be more evident. In this research, these foreign nationals did not cluster in a specific relationship typology identified in Chapter 6. This might, therefore, imply that the impact of culture was not a considerable bias in the data. Nonetheless, this needs to be confirmed with further studies with this specific purpose in focus.

Another issue of particular interest was that one of the participants who responded to the advert was a registered disabled person because of his hearing loss. Having checked that the person's demographic and financial characteristics fitted into the recruitment criteria, the respondent was invited for an interview. The interview was facilitated through lip-reading and special attention to clear articulation of sentences by the researcher. Although one person is rather limited in order to make any inferences, it may help to offer some insight regarding the particular needs of a group of people; i.e. bank customers with hearing disabilities in this case.

The banking histories of the research participants and their demographic characteristics are presented in Appendix 13 in detail. Table 5-9 describes each participant's banking experiences with their banking main banks.

Table 5-9 Research participants' banking experiences with their main banks (MB)

Participant Code	MB Code	Length of Relationship	Is MB the First Bank?	No of products with MB	Contact Frequency	
					Initiated by Participant	Initiated by MB
1 Alice	Bank3	17 years	Yes	3	twice a week	hardly ever
2 Ben	Bank11	20 years	No	1	more than once a month	once a month
3 Betty	Bank10	43 years	Yes	2	twice a month	once a month
4 Bianca	Bank14	7-8 years	No	2	twice a month	once a month
5 Carla	Bank4	8-10 years	No	3	once a week	once a month
6 Casie	Bank14	4 years	No	1	once a week	twice a week
7 Daisy	Bank7	8 years	No	1	2 / 3 times a week	none
8 Diana	Bank10	27 years	No	4	once / twice a week	once a month
9 Elisa	Bank12	15 years	Yes	3	daily	once a year
10 Emily	Bank 11	17 years	No	3	twice a week	once a month
11 Felicity	Bank2	17 years	No	3	2 / 3 times a week	once a month
12 Florence	Bank5	4 years	No	5	once a week	irregular
13 Gloria	Bank11	15 years	No	1	once a week	hardly ever
14 Grace	Bank3	7 years	No	2	1 / 3 times a week	rarely
15 Hannah	Bank10	30 years	Yes	1	2 / 3 times a week	once a month
16 Harry	Bank8	21 years	No	1	2 / 3 times a week	2 / 3 times a month
17 Ian	Bank13	42 years	Yes	3	twice a month	once a month
18 Isabelle	Bank10	4 years	No	2	once a month	none
19 Jack	Bank11	34 years	No	3	twice a month	about twice a year
20 Jessica	Bank6	10 years	No	4	once a week	twice a month
21 John	Bank10	37 years	Yes	3	once a month	about twice a year
22 Keith	Bank2	2 years	No	4	once / twice a month	once a month
23 Kevin	Bank3	20 years	No	2	2 / 3 times a year	4 times a year
24 Lewis	Bank12	5 years	No	5	once a week	less than once a month
25 Martin	Bank11	35 years	Yes	3	once a week	once a month
26 Melissa	Bank11	7 years	No	3	3 times a month	none
27 Newton	Bank8	10 years	Yes	4	2 / 3 times a month	none
28 Niall	Bank11	19 years	Yes	1	once a month	once a month

- continued on next page -

Participant Code	MB Code	Length of Relationship	Is MB the First Bank?	No of products with MB	Contact Frequency	
					Initiated by Participant	Initiated by MB
29 Oliver	Bank10	11 years	No	3	once a month	rarely
30 Oscar	Bank9	5 years	No	3	daily	rarely
31 Patrick	Bank10	13 years	No	2	once a month	twice a year
32 Peter	Bank8	10 years	Yes	2	twice a week	once a month
33 Ray	Bank11	5 years	No	4	twice a week	twice a month
34 Richard	Bank8	13 years	Yes	3	once a week	twice a year
35 Sarah	Bank8	1 year 10 months	No	4	daily	twice a month
36 Shirley	Bank3	5 years	No	2	twice a month	once a year
37 Tess	Bank3	20 years	Yes	2	3 times a week	every 2 / 3 months
38 Thelma	Bank7	4 years	No	2	4 times a week	twice a year

5.9 DATA ANALYSIS AND INTERPRETATION PROCEDURES

Qualitative data analysis is a process involving three core phases of organising, connecting, and corroborating/legitimising (Crabtree and Miller 2000). This iterative and interpretive process is eclectic and involves creative thinking.

There are few universally accepted procedures and standards for qualitative data analysis (Maclaran and Catterall 2002). In general, it can be stated that qualitative analysis is based on making comparisons and contrasts and developing categories (Hammersley and Atkinson 2002). Also, the qualitative researcher needs to be open to contrary or alternative explanations. Although this research presents data collection and analysis under separate headings, data collection and analysis stages are mostly interwoven, and analysis begins almost concurrently with data collection (Crabtree and Miller 2000).

Audio-tapes, interview transcripts, questionnaires filled in by participants and field notes taken by the researcher formed the data in this research. The information provided by respondents was approached as a construction of their worldview. While they may not necessarily be “true” or “rational” in their own terms, such accounts were viewed as a legitimate source of information (Hammersley and Atkinson 2002) about the participants’ experiences with their financial institutions.

5.9.1 Content Analysis Procedure

The analysis, in this research, was guided by the principles of content analysis which is an analysis technique for the systematic and objective description and explanation of the textual data (Berelson 1952; Kassarian 1977). The systematic nature of the content analysis refers to a specification of descriptive categories derived from the theoretical framework of the research. The objective nature, on the other hand, promotes the reliability of the research, which means that, given the same underlying theoretical framework and interpretative categories, different researchers would place the text into the same categories. (Kassarian 1977; Baron *et al.* 1996).

Content analysis was based on the interviews transcribed into text supplemented by field notes. After each interview, within 24-hours-time, field notes were typed. These notes were about the previous telephone calls/emails with the participant as well as reflections and thoughts on the nature of the interview, the participant, whether any specific points needed to be followed up, and whether any outstanding issues were emerging.

In parallel with the content analysis techniques, this research started with an a priori set of codes that had emerged from the literature and the subsequent conceptual framework (Section 5.3). However, these categories evolved and sub-categories emerged in line with the development of the empirical research.

5.9.2 Transcribing, Coding and Pattern Searching

The interviews were fully transcribed in order to preserve the participants' words. This was outsourced to a professional transcribing agency. The returned transcripts were checked for accuracy by the researcher. They were then stored in a qualitative analytical database.

The first analytical step, before the coding involved a close reading and re-reading of the transcripts. This enabled the researcher to develop an initial sense of the issues arising from the data, expected as well as unexpected (de Wet and Erasmus 2005).

Coding was the next stage, which is defined as “tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study” (Miles and Huberman 1994:56). Coding helps to reduce the data down to a manageable but meaningful amount through a method of organising (Kassarjian 1977). The first level of coding utilised was descriptive coding. The pre-structured set of codes created prior to field work were used. Starting with a set of codes prior to fieldwork is recommended especially for studies where time is limited and research questions are well specified. In these cases, pre-structured coding is reported to facilitate the analysis by forcing the researcher to tie research questions or conceptual interests directly to the data (Miles and Huberman 1994; de Wet and Erasmus 2005). This is particularly used in studies where a deductive approach is taken (Crabtree and Miller 2000). In this research, each interview was coded into the pre-structured categories (mostly on a paragraph basis) which were the identified key components of customer relationships: trust in relationship partner, relationship commitment, buyer-seller bonds and relationship benefits. For the sections which did not fall into any of these categories, new codes were created. Where appropriate, multiple codes were developed for single segments of text. Next, each code-group was analysed with more scrutiny which resulted in code (or node) groups as child and sibling codes and code trees. This coding allowed the identification of the type of the key components, for example, whether it was about an affective or continuance commitment.

Rather than restricting the analysis totally to pre-structured codes, a method which is between a priori and inductive approaches was adopted. In this method, a general codebook is created, but additionally sub-codes are allowed to emerge inductively within the codebook. This is deemed to be important in order keep an open-minded approach to data and be alert to unexpected developments (Miles and Huberman 1994). As a result, the codebook went through several iterations as subsequent transcripts were coded and field experience continued. For each code created, clear operational definitions were written and kept in the software, so that the code could be applied consistently throughout the interviews (Miles and Huberman 1994).

Codes which expressed the same concepts were merged. Thus, the textual data were reduced and a certain level of abstraction was reached (Gibbs 2002). A

series of displays are recommended for drawing and verifying descriptive conclusions about the phenomenon under investigation (Miles and Huberman 1994). Displays (mostly in the form of maps and matrices) are visual formats that present information systematically, so valid conclusions can be drawn. Displays are stated to be useful by acting as a powerful tool for discovering connections (Miles and Huberman 1994; Crabtree and Miller 2000). In this research, analytical progression was facilitated through conceptually ordered displays (Appendix 14). The conceptually clustered matrix brought together texts that belong together and thus provided a descriptive summary of the data. This form of data display proved valuable both for verifying relationships between the data and making the analysis process and decisions transparent, which is an important criteria for the reliability of the research (Sykes 1990).

Second level of coding was about searching for patterns in the text. In this stage, analytical progression was achieved through moving from describing (what and how) to explaining (why). Pattern codes are more theoretical constructs. They group descriptive codes into a smaller number of sets, themes or constructs by connecting various segments that share similar patterns or characteristics (Crabtree and Miller 2000), which is a process also known as clustering (Griggs 1987). In clustering, clusters and hierarchies of codes are identified; and then moved up the “abstraction ladder” (Griggs 1987) which offers a deeper level of analysis and leads to the production of research findings (de Wet and Erasmus 2005).

The final stage of analysis is the phase of interpretation (Crabtree and Miller 2000). This is the process of telling the story and writing it up. In terms of the way the findings are presented, verbatim data excerpts are used widely in order to *allow other readers to draw their own meanings and insights* (O'Malley and Prothero 2004). Furthermore, *summaries of data are used extensively* throughout the thesis. These summaries included a *weighting of evidence based on the number of occurrences across interviews* (i.e., how many respondents said the same thing) and on unusual disclosures, as suggested in the literature (de Wet and Erasmus 2005). Repeated checking and verification of coding helped the researcher work towards rigorous analysis and so increased the confidence in research findings (de Wet and Erasmus 2005).

5.9.3 Using Computers in Analysing Qualitative Data

Computer software programs are stated to facilitate data analysis and interpretation processes by providing support in storing data and in coding and retrieving processes. In addition, qualitative software programs help researchers become familiar with a large amount of data within a relatively short time frame (Maclaran and Catterall 2002; de Wet and Erasmus 2005).

Because of the volume of data (just under 50 hours of interviewing) and time constraints, a software package was used to facilitate data analysis. NVivo qualitative data analysis software was used primarily with this purpose in mind. Firstly, each transcript was entered into NVivo2.0 computer software, and then was coded using sentences and paragraphs as units of analysis. Through the concurrent processes of coding and comparative analysis, recurrent themes and patterns were identified, as well as aberrations of those patterns.

5.10 SOME ISSUES ON RIGOUR OF THE RESEARCH

The design of the research process was guided by mechanisms aiming to contribute to the validity and reliability of the findings, and thus adding to the rigour of the research (Morse *et al.* 2002). Adopting an iterative approach, the researcher moved back and forth between the design and implementation to ensure congruence among the literature review, research questions, data collection strategies, and analysis techniques. The data were systematically checked, focus was maintained, and the fit between the data and the conceptual framework and interpretation were scrutinised and confirmed constantly.

In the following sections, more detailed information is presented in terms of approaches taken to improve the validity and reliability of the research, and to minimise social desirability bias along with some remarks on research limitations.

5.10.1 Validity and Generalisability

In a positivist perspective, validity is defined as the extent to which an instrument measures what it aims to measure (Kassarjian 1977; de Wulf *et al.* 2001; Easterby-Smith *et al.* 2002). In qualitative research, validity is used in a variety of

senses (Sykes 1990). Most commonly, validity is related to the kind and accuracy of the information obtained from research participants, and to the confidence with which inferences can be made from that information. Careful sampling design and thorough attention to details of the research process are asserted to contribute to the confidence which inferences can be made (Sykes 1991).

A major argument proposed against the validity of inferences from qualitative data is related to the issue of sampling, that it is generally based on small and purposively selected samples. However, qualitative researchers argue that, rather than being random, the sample must consist of participants who best represent or have knowledge of the research topic in order to obtain optimal quality data (Morse *et al.* 2002). Hence, small and purposive samples should not be regarded as a limitation in qualitative research.

The validity of a research project can be looked at from four perspectives: (1) face validity, (2) internal validity, (3) theoretical validity and (4) consultative validity (Sykes 1990). In terms of face validity, qualitative methods have validity when participants provide the kind of information which is required by the research. The face validity, in this research, was ensured by paying high attention to the design of the interview schedule. Through careful assessment of appropriate literature, it was ensured that all questions were supported by previous studies, and these sources were reported clearly in the thesis (Section 5.6.3). In addition, the validity of research questions was checked through the three pilot studies and a scrupulous reading of the 38 interview transcripts by the researcher.

Regarding internal validity, this is the extent to which the data, observations or measurements are true representations of some reality; i.e. the fit between the data and findings and conclusions (Griggs 1987; Sykes 1990; O'Loughlin *et al.* 2004). Internal validity results from strategies which eliminate ambiguity and contradiction, offer qualitative insight and provide support for data interpretation. A close reading of the textual data and careful interpretation of it, structuring of the data analysis to ensure full and descriptive evaluation and assessment of findings, and representing evidence through the extensive use of quotations, tables and graphs, were used in order to improve internal validity and soundness of the research (Griggs 1987; Miles and Huberman 1994; Patton 2002). In addition, a

detailed research journal was kept with the purpose of increasing the transparency of the research process. Furthermore, as all research data were stored electronically using a qualitative analysis software tool, this contributed to the transparency of the analysis process (Miles and Huberman 1994).

Thirdly, data collection methods have theoretical validity when the procedures are justifiable in terms of established theory (Sykes 1990). In this research, in-depth interviewing was the data collection method employed. Interviewing offers a number of advantages in obtaining information from people (Sykes 1990). Through the flexible and responsive interaction between interviewer and participants, questions can be made clearer if necessary, meanings can be probed, and topics can be covered easily from a number of angles. Moreover, it is asserted that certain kinds of information can be obtained mainly through qualitative interviewing. For example, ill-defined, conceptually complex projects or studies, which deal with processes in individuals' experiences, are to be better explored with interviews. In the relationship marketing literature, in-depth interviewing is an extensively employed method in researching relationships, particularly in studies of an exploratory nature (e.g., O'Malley *et al.* 1997; Gwinner *et al.* 1998; Liljander and Roos 2002; Madden and Perry 2003; O'Loughlin and Szmigin 2003; Ulaga 2003; Laing and Lian 2005). Such views are considered as justification of the appropriateness of the qualitative research methodology employed in this research.

Finally, consultative validity is about validation of information through consultation with other researchers (Sykes 1990) in order to obtain inter-coder reliability by checking for consistency across coders (Miles and Huberman 1994). Such a process is stated to add credibility to the research findings, and is a verification procedure for reaching maximum coder agreement (de Wulf *et al.* 2001; de Wet and Erasmus 2005). In this research, consultative validity, to a limited extent, was checked through the help of two other PhD students. The research students were provided with the coding list and definitions of the codes; and they were asked to code one transcript independently. Then, the coded transcript was compared with the one coded by the researcher. Inter-researcher differences were resolved through discussion and reference back to the interview transcript as suggested by

Miles and Huberman (1994). Such a validation technique has contributed to the robustness of the coding and analysis processes (O'Loughlin *et al.* 2004).

Moving on to the issue of generalisability, which is also termed as external validity by some researchers (Easterby-Smith *et al.* 2002), an argument against qualitative studies by positivist researchers is its limited capacity to generalise from research results, as qualitative research is likely to focus on a relatively few sample units (Szmigin 1997). However, qualitative researchers state that generalisation is not the primary focus of qualitative studies (Newholm 2005). Instead, in these studies, the primary focus is on generating an understanding grounded in empirical data. Hence, this should not be regarded as undermining the rigour of qualitative research.

5.10.2 Reliability

Reliability in a qualitative study refers to the likelihood that a different researcher would reach similar conclusions if a replication study was carried out (Griggs 1987; Sykes 1990; Madden and Perry 2003). Reliability is a concept which is closely related to validity. Validity is stated to focus on the meaning and meaningfulness of data while reliability focuses on the consistency of results (Patton 2002).

In this research, reliability was achieved through a number of ways. Firstly, a semi-structured interview schedule was used, which was based on a standard format written down as an interviewer's guide (Madden and Perry 2003). Secondly, all interviews were audio-taped, fully transcribed and field notes were taken during the interviews (Madden and Perry 2003). All this information was stored for future reference. Thirdly, the entire research process was made transparent through the extensive use of quotations, tables and graphs from the data and keeping research journals (Sykes 1990). Finally, since reliability is about replicability of the data, intercoder agreement was assessed to ensure the reliability of the study (O'Loughlin *et al.* 2004).

5.10.3 Social Desirability Bias

It is stated that in some circumstances, research participants may be tempted to give a response which is socially desirable rather than expressing what they

actually think, believe or do (Nancarrow and Brace 2000). However, such a bias can be minimised if certain approaches are taken (O'Loughlin 2003). Following such advice, the potential effects of social desirability bias was minimised in this research in the following ways. Firstly, interview questions were carefully worded and leading questions eliminated. Secondly, at the outset of the interview, it was emphasised that there was no right or wrong answers, and the whole investigation was about understanding the participant's banking experiences. Thirdly, it was promised that the data from the interviews would be kept anonymous and in no way could be traced back to the participant. Finally, participants were reassured that no commercial organisation was behind the research, but it had purely academic purposes.

5.10.4 Methodological Limitations

In Chapter 9, the limitations of the research are discussed in detail. This section focuses on the methodological limitations of the current research.

This is exploratory research based on in-depth interviews with 38 individuals. Although a number of approaches were taken to improve the validity and reliability of research findings, it has some limitations. Firstly, due the number of interviews, further in-depth qualitative and/or quantitative studies need to be conducted with larger sample sizes in order to be able to make further inferences and generalisations from the research. Secondly, this research was carried out in a UK context. Characteristics of the UK banking sector could pose difficulties in generalising the key findings, conclusions and recommendations to other sectors or financial institutions operating in different regulatory and technological environments.

Another issue which needs to be kept in mind while evaluating the research findings is the reconstruction of long term memory (Szmigin 1997). Accounts presented by the participants were basically about their perceptions of past events, and it may not necessarily reflect an accurate representation of the past.

Consequently, it needs to be recognised that, based on the research methodology adopted, the research findings are indicative and suggestive, rather than conclusive.

5.11 ETHICAL CONSIDERATIONS

A research ethics protocol was submitted for the approval of the Open University Ethics Committee prior to participant recruitment and data collection.

To address ethical consideration, a number of measures were taken. Firstly, at the start of the interviews, the researcher verbally informed each participant on issues including (1) the purpose and the funding body of the research, (2) the confidentiality and anonymity of the data provided during the interview, (3) participants' right not to answer any questions, and (4) participants' right to withdraw their participation at any point. It was decided that if the participant decided to withdraw their participation the data elicited from the interview would be excluded from the research. Secondly, the interviews were audio-recorded only after the approval of the participant had been obtained. Thirdly, at the end of interviews, each participant was given a small gift which was a pen as a means of thanking them for their contribution to the research. This gift was not publicised during the recruitment stage in order to minimise the potential impact of the gift on the nature of the data collected (Hammersley and Atkinson 2002). The next consideration was about foreseeing risks. There were no foreseen risks for the participants in this research. A potential risk for the researcher was identified in relation to interview location; in particular when the interview was being carried out at the participant's home. To reduce such potential risks, all participants who were recruited through advertising were invited to the Open University campus in Milton Keynes for the interview. When the participant was recruited through the snowballing technique, the interviewee had the option of being interviewed either at the Open University premises or in their own environment. This was because this group of participants was recommended by friends/acquaintances of the researcher, and therefore was considered less of a threat. Finally, another ethical issue which emerged during the analysis stage was related to the identity of financial institutions. As a result of discussions with the Open University Ethics Committee, bank names were anonymised since it was felt that the findings could have some implications for the banks, which was not part of the research agenda.